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## PREFACE

THE day has passed, if ever there was such a day, when it was necessary to justify to the American people a consideration of national policy against the background of a world community. At its semi-annual meeting, just three weeks before the opening of the San Francisco Conference, the Academy of Political Science recognized this fact by discussing the political, economic and social aspects of international security in terms of the structure and functions of the proposed World Organization. It was assumed by every participant in the conference that whatever may be the responsibilities of the United States after war has ended in the Pacific, as well as in Europe, they will have to be faced within the framework of some organization sponsored by the United Nations. The full significance of this assumption becomes clear in the pages of this volume of the PROCEEDINGS, in which are expressed the fears as well as the hopes of those who know how arduous will be the task of converting the "road to victory" into the way of peace.

For the second time in ten years the Academy conducted its meeting in coöperation with the Carnegie Endowment for International Peace. Two days were devoted to the various sessions at the Hotel Astor in New York City on April 4-5, 1945. To the speakers, the chairmen and the participants in all of the discussions the Academy is deeply indebted. The unusually heavy tasks of program building were shared by the members of the following committee: Nicholas Murray Butler, Honorary Chairman, Miss Ethel Warner (Director), Arthur A. Ballantine, W. Randolph Burgess, S. Sloan Colt, Frederic R. Coudert, John W. Davis, Malcolm Davis, Lewis W. Douglas, Leon Fraser, Carter Goodrich, Pierre Jay, Philip C. Jessup, Thomas W. Lamont, Sam A. Lewisohn, Henry R. Luce, Roswell Magill, Charles Merz, Shepard Morgan, William L. Ransom, George Roberts, James T. Shotwell, Alfred P. Sloan, Jr., George A. Sloan, Juan T. Trippe, Thomas J. Watson, Leo Wolman.

## PART I

### THE ENFORCEMENT OF INTERNATIONAL SECURITY

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#### INTRODUCTION \*

GRAYSON L. KIRK, *Presiding*

Professor of Government, Columbia University

Consultant to Department of State

IT is altogether fitting, it seems to me, that this spring session of the Academy should be devoted to the general topic of "World Organization—Economic, Political and Social". This is a time when new arrangements are being developed, new institutions created and new procedures agreed upon. I think it is also appropriate that we should begin our two-day inquiry into this general topic by paying some attention to the problem of international security, particularly to the future security of the United States.

\*Opening remarks at the First Session of the Semi-annual Meeting.

## THE FUTURE SECURITY OF THE UNITED STATES

GRAYSON L. KIRK

THE task of the statesman is never simple and it is never finished. In the complex field of foreign affairs the essence of good statesmanship lies in the ability to protect the fundamental and persistent interests of the state by adapting traditional policies to meet the ever-changing conditions of the external world. If a foreign minister adheres slavishly to tradition, his course is likely to be fully as disastrous as if he adopts alternatives of reckless improvisation. The middle course, which requires a constant reëxamination of the forces of stability and change, and the shaping of policy to fit them, is the only one which can be counted on to preserve the vital interests of the state in its foreign relations.

These general observations apply with particular force to the problem of national security. No single interest of the state is more fundamental, for unless there can be as much safety against external danger as the best intelligence and the full mobilization of the resources of the state can provide, then the entire life of the state must be carried on precariously under the constant shadow of insecurity. In considering this problem of our future security, we must ask ourselves whether the circumstances, which our past policy has been shaped to meet, continue to exist; or, if not, what policy changes are needed in order to provide us in the future with the same security that we had—or thought we had—in the world of a generation ago.

At the outset, I should like to suggest that our post-war world will differ from the world we have known in the past in at least two important ways, both of which have important implications for our future security. The first of these requires little elaboration; it is merely the old and rather trite observation concerning the way in which modern technology has brought about a shrinkage of global distances. The vast reaches of the Atlantic and the Pacific are no longer so vast, and they no longer provide us with impressive natural barriers behind which we can tend our own

garden in assured peace and safety. If you hesitate at all to accept this conclusion, I would merely invite your attention to the magnitude of our own military effort now being conducted on the far side of each of these two oceans. If the United States can put forth such a prodigious effort, and can strike with such lethal power at these great distances from our homeland, then there is no geographical or technological reason why we may not in the future be the victims of an equally deadly attack launched from Europe or Asia against this continent. If we can do this to others, we face the prospect that others with the same power potential can do as much to us. Clearly, therefore, we shall only court disaster if we continue to think of our oceans as invulnerable bastions. Such a Maginot Line psychology would be as fatal to us as it was to the France of five years ago.

No less important is the changing distribution of world power. The situation which obtained in the latter part of the nineteenth century—when British power was supreme upon the sea lanes of the world, and when there was a fairly satisfactory balancing of power on the European continent—was one which favored American security to an extent which we have seldom recognized. Actually, it was scarcely necessary for us to have a foreign policy at all. I know of no other great state which had such favorable circumstances for such a long period of time. Small wonder that we thought of diplomacy and power politics and alliances as sinister trappings of the old world from whose toils we had fortunately escaped. Our analysis was wrong, but we suffered no ill effects from it.

Today almost every aspect of this old situation has disappeared or is fast moving over the horizon. The continent of Europe, once the stronghold of world power, bids fair in the future to be little more than an enlarged Balkan area of small and middle-sized states situated in between the great peripheral power centers of Britain and the Soviet Union. Even though France, once the strongest of the continental states, does regain a large measure of her pre-war strength, she will not be a front-rank Power in the post-war sense of that term. This conclusion is warranted because developments in the Soviet Union and the United States are tending to raise the level of front-rank, great Power status far beyond anything which the power potential of France can hope to match. To a lesser extent this same conclusion may also apply to Britain, first because she will be greatly weakened by the long-time effects of this costly war, and second because British power is scattered throughout a global Empire whereas that of Russia and the United States is to a far greater extent concentrated at home where it can be more safely and efficiently utilized as needed.

This prospective bipolarity of greatest world power has been anticipated for some time. Let me cite the testimony of one distinguished observer who said:

There are, at the present time, two great nations in the world which seem to tend toward the same end, although they started from different points: I allude to the Russians and the Americans. Both of them have grown up unnoticed, and while the attention of mankind was directed elsewhere, they have suddenly assumed a most prominent place among the nations; and the world learned their existence and their greatness at almost the same time.

All other nations seem to have nearly reached their natural limits, and only to be charged with the maintenance of their power; but these are still in the act of growth; all the others are stopped, or continue to advance with extreme difficulty; these are proceeding with ease and with celerity along a path to which the human eye can assign no term. . . . The Anglo-American relies upon personal interest to accomplish his ends, and gives free scope to the unguided exertions and common sense of the citizens; the Russian centers all the authority of society in a single arm. . . . Their starting point is different, and their courses are not the same; yet each of them seems to be marked out by the will of Heaven to sway the destinies of half the globe.

It will interest you, I think, to know that these words, which have such a contemporary ring, were written by Alexis de Tocqueville in his famous *Democracy in America*, which was first published in January 1835.

There is a first general conclusion to be drawn from reflection upon the disappearance of old barriers and the changing location of the world's power centers. This is that there is no assurance to us of any national security through a policy of withdrawal from the political affairs of the world. The possession of great power implies the assumption of great responsibility. This is not a counsel of altruism; it is a sober calculation of our national interest. Let me return to this point a little later.

If, in view of these changing world conditions, we can derive only danger from a policy of studied indifference to happenings in Europe and Asia, then what are the proper elements of a new security policy which will give us in a planned way in the future the same security which we had without planning for it in the past? This is a large order, but if we fail to deal with it intelligently, our children may be the worse for it in the future.

From a strictly military point of view certain conclusions are clear. One is that, from now on, we shall need to have much greater military strength in being than we have generally had in the past. A corollary of diminishing global distances is the prospect that we may not, in the future, have enough time, after we have been challenged, to prepare ourselves for a great military effort. We have been fortunate in this respect in the last two wars, but we cannot assume that we will always be equally so in the future. If not, then not only would we be exposed to great danger quickly, but we would have the added disadvantage of being required to fight on American soil. Certainly, one of the important aspects of any security policy is that it should enable you, if you cannot always keep the

peace, at least to spare your own country as far as possible from the ghastly ravages of modern combat operations.

Also, we shall need a greater military establishment because of our obligations under the prospective international security organization. Whatever its precise form, such an organization necessarily will lay a primary burden of responsibility upon the states of greatest strength. This means that Britain, the Soviet Union and the United States will have the major obligation of using their strength jointly in behalf of an organization to maintain peace throughout the world. Otherwise, any organization will be impotent. To be able to carry our own share of this responsibility, we shall need to have a substantial army, navy and air force ready for such threats to world peace as may arise.

The precise nature of the military establishment which these new circumstances will necessitate is not a matter on which a civilian like myself can speak with any degree of authority. The desirable goal, however, is obvious. We must be able to apply substantial force at points far removed from our own shores with a minimum of delay. This will place an initial dependence upon a powerful navy and air force. Whether a program of universal military training, such as is now contained in the proposal before Congress, is also a necessary component part of our needs is, I think, a matter for careful and extended discussion. On the basis of the best opinion available, we should try to determine whether this great departure from our past practice is likely to do as much for our security as a comparable investment of time and money in other forms of military preparation. In making such a momentous decision we must keep in mind the fact that we have a dual object. One is the need to prepare ourselves for our rôle in an international organization. The other is to be able to meet the requirements of our own national defense in case the organization fails to ensure the peaceful adjustment of our disputes with other great Powers. In any event, if I may speak parenthetically for a moment, the decision should turn solely on the contribution which we believe universal training would make to our security. We should not be greatly influenced by other alleged advantages, such as its presumed contribution to standards of national education, public health, and the like. These are, at best, incidental benefits which could be obtained far more efficiently by other means.

Our need to be able to apply force quickly on the other side of our ocean frontiers naturally raises the question of new naval and air bases. This is far from a simple matter. From a technical military point of view any layman can see an obvious advantage in a nexus of bases to serve as sources of matériel supply for the aerial and naval spearheads of our overseas forces, and as strong points for the protection of our supply routes from the factories and arsenals of this country. But these are not the only

considerations involved. Equally important, perhaps, is the effect which such a step might have upon the attitudes of other countries toward the United States. While we have the greatest confidence in our own motives, and we could sincerely assure the world that this military expansion was purely defensive, would we be able to convince others that this was so? Would it, on the other hand, have a tendency to make others suspicious of us, and would it lead them to try to form security combinations against us? If so, then the technical gain might be more than offset by the loss in the conditions of political security. Both facets of the problem must be considered before policy decisions are made.

In many ways, the political aspects of our security program are at least as important as those of a military character. If I read correctly the lessons of our involvement in the last two great wars, they point to the conclusion that the people of this country have an almost instinctive feeling that our security would be jeopardized by too great a concentration of power in the hands of any one state on either the Atlantic rimland of Europe or the Pacific rimland of Asia. Other things being equal, this is a reasonable and a sound conclusion. But what are its implications for the future? Does this mean that, in the future as in the past, we shall refrain from taking any action, when we see such concentrations of power developing, until we are confronted with a problem which can be dealt with only by a prodigious military effort? Twice we have followed this policy of protecting ourselves by the hardest and most dangerous course possible. This is not by any stretch of the imagination an illustration of wise and far-sighted statesmanship. Our success is, rather, a tribute to our military skill, our immense potential, and to the fact that, in each case, we have had allies who could deal with the foe until we were able to mobilize our latent power.

But even though all this is true, we must not be premature in deciding that we must now reverse this traditional policy entirely. Even though we cannot, in all fairness to our own safety, disinterest ourselves in political developments in these vital areas abroad, precisely what is the policy alternative? How can we manifest this interest to an extent commensurable with our needs without assuming political responsibilities beyond those limits which most Americans would approve? The simple and traditional way to implement such an interest would be by the conclusion of alliances which would pledge our aid to those states whose continued existence we regard as vital to our own safety. But it is clear that most of our fellow citizens might feel that the dangers of military embroilment through such an alliance relationship would outweigh the security advantages which we would derive from it. Also, such a policy of political commitment would raise the same difficulties, which I mentioned a moment ago in connection

with the matter of bases, namely, that other states might understandably regard such a step as an evidence of an American policy directed against their own security. Clearly, the obverse of such a step, that is, the interference of another great Power in such a fashion in this hemisphere, would be so regarded by the great majority of American citizens. We have felt this way ever since the days of James Monroe, and we could scarcely object, in all good conscience, if others felt the same way about us.

Is there any way out of this dilemma? At the moment, I can see only two possibilities. We could abandon any interest in continental affairs in Europe and Asia, and could undertake to make ourselves militarily as strong as possible in this hemisphere and in the two oceans. By strengthening our traditional ties with Britain, we could maintain an outpost close to Europe (though the British are understandably averse to our tendency to regard them merely in this light), and by maintaining a strong position in the Philippines we could have an advance base near the Asiatic mainland. The real difficulty would be that this policy would only be a streamlined version of our traditional isolationism. It would not offer any effective guarantees against a repetition of our experiences in the recent past. Being stronger militarily, we might be willing to act at an earlier stage to deal with a developing threat, but this would require a degree of prescience which has not thus far been characteristic of any peace-loving democratic society. We must not blink at the fact that our people will refrain from a willingness to resort to force until the last possible alternative has been exhausted. It is a price which we pay for our democratic way of life.

The other alternative is, I believe, the only one which would enable us to exert an active and continuous interest in European and Asiatic affairs without exposing ourselves to the dangers suggested above. This is the exercise of such an interest through the instrumentality of a world-wide security organization. This participation would enable us, in concert with other Powers, to deal at an early stage with situations with which we would not, in all probability, undertake to deal if we were acting alone. Moreover, our collaboration inside such an organization should go far to make possible the adjustment of our own difficulties with those other Powers whose friendly collaboration with us we recognize to be of vital importance to our own security.

It is important, though, that we should view this organization in the proper perspective. We should not allow our aspirations for an enduring peace to lead us to believe that the mere establishment of such an organization will, in itself, constitute a sufficient guarantee for our future national security. The new instrument will not, and cannot, cope firmly and effectively with disputes among the greatest Powers. It can facilitate the peaceful adjustment of these disputes, but it cannot coerce the parties into

the acceptance of an unpalatable settlement. In other words, it will not bring us the millennium tomorrow. We may be able to start toward permanent peace through the Golden Gate of San Francisco, but we will still have a long course to follow before we achieve our goal. Only if we are both wiser and stronger than we have been in the past will we be able to assure for ourselves—and for others—that freedom from fear which all reasonable men desire.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN KIRK: Now, in my dual capacity, I shall become once more the chairman of the morning session. I have great pleasure in presenting the next speaker, Vice Admiral Russell Willson, who has been serving throughout the war as one of the three members of the Joint Strategical Survey Committee of the Joint Chiefs of Staff. A man whose distinguished naval career is familiar, I am sure, to all of you, he combines to a remarkable extent that technical competence and breadth of view which make for the wisest counsel possible in fields of this kind. He will speak to you on the problem of the future arrangements for military security. Admiral Willson!

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## THE MILITARY AND ORGANIZATIONAL BASES OF SECURITY

VICE ADMIRAL RUSSELL WILLSON

The Naval Member of the Joint Strategic Survey Committee

of the Joint Chiefs of Staff

Delegate, Dumbarton Oaks Conference

I HAVE been asked to discuss briefly "The Military and Organizational Bases of Security". This is a well-tailored title which fits snugly into the program. It is not too exact, however; so for my own purposes I have restated it as: "The Place of Military Power and of the Related Organizational Arrangements of the Dumbarton Oaks Proposals, in the Attainment of International Peace and Security". It will be understood, I am sure, that the ideas I shall express represent my personal views only, and should, in no sense, be considered as the official views of the Navy or any other department of the government.

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If we are to discuss military power in relation to international security, it will be profitable first to examine some of its more abstract aspects, and thereafter to consider the world-wide military situation as it will exist in the post-war era. Without being unduly technical, there are certain characteristics of modern military power which are at once apparent. Perhaps the most important of these is the fact that today military power is measured on a broader basis than ever before, since in its ultimate form it encompasses all the resources of a nation, plus the ability of that nation to draw upon the resources of other nations. Another characteristic of military power is its susceptibility to change. This change may be gradual, resulting from the depletion of iron, fuel, manpower or other essential resources, or it may be comparatively rapid, owing to technical developments, such as the airplane, the submarine, and the advent of oil as the primary fuel. Military power as among nations has always been relative, rather than absolute, but modern developments have tended to intensify the disparity between the greater and the lesser Powers. The price of applied military power, in the form of war, has always been costly in life, treasure and human suffering, but today it has reached staggering proportions—and now extends to civil as well as military populations and resources.

In addition to these modern developments, it would seem that military power, always national in character, is now about to acquire under the proposed Organization a limited international character. This development has been hopefully hailed as the essential element of the new order which

will insure its success. We are particularly concerned with this phase of the subject, but before discussing it we should first clearly understand the world-wide military situation which will exist at the time any new international organization is established.

After Germany and Japan are defeated, disarmed, and under such effective control that they cannot rebuild their military power, we shall find a world profoundly changed in respect of relative national military strengths, a change comparable indeed with that occasioned by the fall of the Roman Empire. This is a fact of fundamental importance in its bearing upon future international relations, and upon the character and prospects for success of any international organization. The time is not opportune to discuss publicly the details of the relative military strength of the great Powers—nor the reasons therefor. We may, however, make a general, if rough, estimate based on a theoretical examination of the factors involved.

In the early post-war era the United States and Russia, it would seem, will be the strongest military Powers, while the British Empire will have lost ground militarily and economically and will occupy a third position. China's military potential will lie mostly in her manpower and possible future industrialization, while France, though definitely less powerful than Great Britain, in the near future will provide an important factor of military power on the continent of Europe.

In other words, on the basis of potential military power in the post-war era, it would seem that the five great Powers will fall into three well-defined groups: United States and Russia, the two most powerful; British Empire, below the United States and Russia; China and France, clearly below the British Empire. Nations other than the United States, Russia and the British Empire may be potential threats to international peace and security, as conceived by the International Organization, but even collectively they will not possess sufficient military power to involve the world in a global war against the concerted will of the three great Powers. How will this situation regarding the military power of nations affect the purpose and functioning of the International Organization?

The announced purposes of the Organization are, briefly: to maintain international peace and security; to develop friendly relations among nations; to achieve international coöperation. The second and third of these purposes are so closely related to the first that in discussing the subject, from a military point of view, we may express the basic purpose of the Organization as being to maintain international peace and security.

What then do we mean by international peace and security? There are several kinds of "security" as there are several kinds of "freedom", but none of them can exist in the presence of a major war or threat of war. In

my opinion, the one great "security" for which we must strive—which will mark success if we attain it, and proclaim failure if we do not—is security against World War III. Given that, all other objectives of the World Organization will eventually fall into line; without it, we shall attain none of them.

How then can we prevent World War III? We must first identify the conditions which will bring it about. These conditions fall in two groups, characterized by (1) a recrudescence of former enemy Powers as potential aggressor nations; (2) a loss of solidarity among the three great Powers. As to the first of these, the responsibility to insure that former enemy states never again attain the military power essential to their becoming aggressor nations is not a function of the proposed International Organization; in fact, the last paragraph of the Dumbarton Oaks document provides that "No provision of the charter should preclude action taken or authorized in relation to enemy states, as a result of the present war, by the governments having responsibility for such action." This responsibility rests with the United Nations, acting initially through the United States, Russia, Great Britain and France as regards Germany, and through the United States, Great Britain and China as regards Japan, with the addition of Russia, should that nation eventually join in the war against Japan.

It is conceivable, in fact quite possible, that progressively, by agreement among themselves, and by processes within the structure of the International Organization, the United Nations may transfer some of their responsibility for control of former enemy states to the International Organization, with the expectation that such states may eventually attain full membership therein. How, during what period, and by what steps this transition will take place, we cannot clearly foresee, and it would be unwise to attempt now to formulate definite rules and standards for its accomplishment. The vital thing, so important that it cannot be repeated too often, is that whatever the system of control over Germany and Japan, the success of that system is one of the two basic essentials in the success of the International Organization, and the prevention of World War III.

But even if we are successful in maintaining adequate control of former enemy states and eventually receiving them into the World Organization, there will remain the second source of failure. This is a loss of solidarity among the three great Powers. Should these Powers not be able to co-operate effectively on a nonaggressive basis, in support of the International Organization, the Organization will be doomed to eventual failure. If, in addition, the control of former enemy states should be unduly relaxed or fail in any substantial degree, as probably would be the case if the three great Powers fell out among themselves, the field would be open for com-

peting alliances, by which Germany or Japan, or both, might be attached to a great Power, and World War III would be upon us.

In assessing the possibilities of a break in the solidarity of the three great Powers, extending to one or more of them becoming an aggressor nation, it would seem reasonable to assume that the United States, whether within or without the International Organization, will not become an aggressor. The same assumption can be made concerning Great Britain. In making this latter assumption, however, we should recognize that the British position may well be different from that of the United States. It might develop that Great Britain, because of her uncertainty regarding possible developments in the world situation, would feel compelled under some circumstances to combine with the western European Powers, including even a new Germany, in adopting a strong offensive-defensive policy. Such a situation would foreshadow a breakdown of the International Organization and set the stage for World War III.

It is no reflection on our great ally Russia, that in a discussion of this kind we cannot speak with certainty as regards the future policy of that nation. The Soviet Union is so new and its government so centralized that there is little in the past by which to judge the future. We have every confidence in Russia, but our discussion would be incomplete, did we not recognize certain military facts bearing on the subject. Russia, in the areas which surround her, could not be coerced by any military power at the disposal of the International Organization, nor, with a demilitarized Germany, by the military power of all the other nations. In other words, Russia would have the military power forcibly to dominate or to absorb adjacent areas if she should undertake to do so. Beyond the areas strategically adjacent to her, the military capabilities of Russia, as of any other state, would of course progressively decline. Russia could not, for example, in the foreseeable future, threaten the western hemisphere. Between these two extremes would lie varying possibilities.

This brief, and perhaps oversimplified, analysis of the world military situation would indicate that security against another world war lies in maintaining adequate control of Germany and Japan, and in the ability and willingness of the three great Powers to coöperate with each other, preferably—but not necessarily—within the structure of a world organization.

We should recognize, however, that the International Organization, while undertaking to bring about conditions favorable to peace, and in general to advance the cause of national and human welfare throughout the world, cannot guarantee either one of these two essential conditions for preventing World War III. It can and will, however, make the maximum contribution humanly possible toward preventing another world war, by furnish-

ing the machinery for settling disputes by pacific means, and by supplying limited military power to enforce, if necessary, its decisions against any but the major Powers.

Under the Dumbarton Oaks proposals, the Security Council would have "armed forces, facilities and assistance" available on its call to enforce any action it decides to take for the maintenance of peace and security. There have been lengthy discussions as to the best means of providing this force. These discussions examined two systems, which may be described as the contingent system and the international police force system. Under the contingent system, each nation, by previous agreement, would be obligated to furnish, on the call of the Security Council, certain "numbers and types of forces" and certain "facilities and assistance". Under the international police force system, by previous agreement, an international police force, composed of agreed quotas contributed by the several nations, would be permanently maintained directly under the Security Council, and available to it for the maintenance of peace and security.

Without attempting to present technical arguments, it may be said that, in our military view, the contingent system offers better promise of effectiveness than would the international police force system. Each contingent would be as efficient as the national military forces from which it came, and the distribution of such forces throughout the world would tend to make them promptly available wherever needed. On the other hand, an international police force, if widely distributed, would lack the esprit, and the opportunity for training, of a national force, and if concentrated would not be promptly available wherever needed. The contingent system is the system recommended in the Dumbarton Oaks proposals.

In accepting the contingent system, we must recognize that to be effective the contingents must be furnished immediately when called—and without the necessity of legislative or other delaying government action. The document provides that "National air force contingents . . . should be held immediately available." This would seem to assume that air forces might be adequate, without supporting naval or ground forces, an assumption not entirely supported by the experience of this war. However, it is intended that in practice all contingents will be immediately available and in the final document it should be so stated.

In the case of the United States, this point of the contingents being immediately available involves a question as to the authority of the executive branch of the government to commit our forces outside the country without infringing on the warmaking powers of the Congress. It would seem that this possible difficulty may be unduly emphasized; for, after the Security Council and General Assembly are set up, and by the terms of the proposals, there must be a series of agreements among the nations as to

the size of their respective contingents and the conditions under which they will be furnished. These agreements must be subject to the constitutional procedures of each country. In the United States, therefore, the question of the conditions under which its contingent is to be furnished will be passed upon in advance by the Congress in approving the agreement. The provisions of the agreement will presumably recognize that the executive authority, on a number of occasions—some seventy-six I believe—has used military force outside of the United States, and that there is, therefore, ample support for the view that the executive already has such authority, short of a formally declared war.

It is obvious that since the Security Council, a civilian body, is charged with great responsibilities involving, directly or indirectly, fields of military activity and concern, it must have the advice and assistance of a highly qualified military body. The proposals provide for this in the form of a Military Staff Committee. The advice and assistance of this committee concern not only the military requirements for the maintenance of peace and security, and the manner by which they are to be made available, but all questions of employment and command of forces placed at its disposal, and all matters in regard to possible future regulation of armaments. It is contemplated that, in military operations under the authority of the Security Council, the Military Staff Committee will exercise operational and strategic control in somewhat the same relationship to the Security Council as the Joint Chiefs of Staff, at the present time, bear to the President in his capacity as Commander-in-Chief of the Army and the Navy. Actual command in the field, it is contemplated, will be exercised by a commander-in-chief, designated by the Security Council on the recommendation of the Military Staff Committee and bearing to that committee a relationship roughly like that which General Eisenhower, for example, bears to the Combined Chiefs of Staff.

To summarize, it may be said that the organizational arrangements of the Dumbarton Oaks proposals, in military matters, go as far as possible in contributing to peace and security and to the other high purposes of the Organization. They endeavor to correct the weaknesses in the League of Nations and to build for the future. These arrangements, however, and the Organization under which they will operate cannot of themselves guarantee peace and security and prevent World War III. To do this the three great Powers must see to it that they maintain control over their former enemies, and find no new enemies among themselves.

In conclusion, I would add one final thought—that when all is said and done the greatest single military factor in the security of the world is the absolute military security of the United States. We should dedicate ourselves to maintaining it.

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## REMARKS

CHAIRMAN KIRK: Thank you very much, Admiral Willson. I am sure that the audience will have some questions for you later on in this session.

The study of international relations in this country has at various times been under the control of different groups of people. Students of international law, students of history, sociologists, sometimes those who are missionaries rather than scientific students, have each had their periods of dominating influence. Only recently has an attempt been made to study the problem of international relations in what I would call a truly analytic fashion, to examine the sources and the character of international power and the ways in which national power is being used.

It is fitting, I think, that we should turn this morning to Professor Harold Sprout of the Department of Politics at Princeton University, who is one of the professional students of this type, and who will now undertake to explore for us, first of all, the problem of the relationship of those great Powers to which Admiral Willson has just alluded. Professor Sprout will provide the opening part of a political, rather than military, analysis. Professor Sprout!

PROFESSOR HAROLD SPROUT: Professor Kirk and Admiral Willson have already said some of the things that I am going to say, and said them better. Perhaps the repetition will be useful because it will come into a slightly different context, that context being the peculiar rôle that the great states are to play in the emerging world situation.

## THE ROLE OF THE GREAT STATES

HAROLD SPROUT

Associate Professor of Politics, Princeton University

**I**DEAS regarding the rôle of the great states in the enforcement of international security range over a broad field. At one extreme is the view that, "because only the great Powers can wage autonomous war, they alone should take political decisions in peacetime." At the opposite extreme stand those "whose passion for the sovereign equality of all nations would lead them to ignore strategic facts completely."<sup>1</sup>

Proponents of the first view look upon the maintenance of peace as an engineering job to be done, not a philosophical theory to be debated. What, they ask, can Liberia, Ethiopia, or other small, weak or backward political communities contribute to the business of keeping order in the world? It is absurd, they contend, that outworn doctrines of state sovereignty and equality should give such communities a voice in determining the destiny of greater and more advanced nations.

To such arguments, it is replied that not all small or weak states are culturally and politically backward. Nor have they all played a negligible rôle in the past, say the spokesmen for the lesser Powers. Some of them, it is pointed out, played a more useful and constructive rôle than the great Powers in the attempt to make the League of Nations a going concern. Furthermore, it is contended, deprive the weak states of a voice in major decisions, and a world security organization becomes, at least potentially, an instrumentality for their oppression by the great Powers.

The issue thus joined is not susceptible of a dogmatic solution. Neither exclusive great Power rule nor sovereign equality for strong and weak alike offers a workable prescription for a new world order. The problem today, as in the past, is to find an acceptable and workable middle way. The Covenant of the League of Nations, and even more the League of Nations in action, represented a solution which gave the lesser Powers a relatively large rôle. The Dumbarton Oaks Charter represents a moderate

<sup>1</sup> *The Economist* (London), March 11, 1944, p. 330.

swing in the opposite direction. The proposed plan definitely puts a few great Powers in the "driver's seat"; and there is widespread criticism of the absence from the plan of any guarantee of the integrity of the member states, comparable to Article 10 of the League of Nations Covenant.

Does the proposed Charter square with the political and military facts as they are, not as one might prefer them to be? That is fundamentally the question at issue in any discussion of the rôle of the great states in the enforcement of international security.

At the outset, we need to divest ourselves as much as possible from the inveterate American faith in formulas and gadgets. Judging from the trend of public discussion in recent months, there seems to be widespread belief that disparities of strength between great and small states can be neutralized, that the superior power of the great can be immobilized, and security for all be thus assured, if only we can find the right formula for voting in Council and Assembly, for mobilizing armed force against aggressors, for revision of unjust treaties, and so forth.

Such questions of organization and procedure are unquestionably important. No one would wish to deny that. But they can be effectively dealt with only in the light of still more basic issues. A building is no stronger than its foundation, and even a well-constructed building upon a sound foundation may not stand unless the building fits the foundation and is properly attached to it.

These elementary engineering principles apply to political as well as to physical structures—but with one important difference. The architect and construction engineer can usually design and build the foundation to suit the structure they want to erect upon it. The statesman, on the contrary, must take his foundation pretty much as he finds it, and design the building to fit. This qualification applies with special force to the task of building an enduring edifice of peace and international security.

The foundation to which must be fitted any workable international charter is a society of sovereign states whose distinguishing characteristics include legal equality, practical inequality, cultural diversity, linguistic barriers and intense nationalism. Equal in law, no two are equal in fact. Some are leaders in science, technology and the arts. Others have barely emerged from the stone age. Some are towering giants in strength. Others are pygmies by comparison. Some covet with savage lust their neighbors' possessions. Others seek only to live and to let live. With few exceptions, the citizens of all states are fired with a nationalism which recognizes no loyalty higher than the national state.

Passing from the general to the specific, one salient feature of the emerging world situation is the progressive concentration of power in fewer hands. This trend seems to be the inescapable result of modern industrial-

ism. Significant military power is rapidly becoming the virtual monopoly of a few great states. These states possess, or have reasonably secure access to, vast stores of mechanical energy, huge quantities of raw materials, immense and diversified industrial plant, and millions of farmers, industrial workers and soldiers, all welded together into a complex going concern.

Broadly speaking, the trend of modern technology is to make the strong stronger, while the weak grow relatively weaker. Not one of the lesser European Powers has been able in this war to fight even a protracted delaying action. Not one could have won back its freedom alone and unaided. Weak states are more than ever under the shadow of powerful neighbors. No paper guarantee of the integrity of small nations, no declaration of the sovereign equality of all nations, can alter the irreversible trend toward greater inequality of strength between the great Powers and the weak.

Fundamental changes are also taking place within the ranks of the great Powers. Before the war seven states formed this group. Three of these—Italy, Germany and Japan—have been, or will be, reduced to military impotence by devastation, defeat and the terms of peace. Their eventual status cannot now be foretold. But it may be safely assumed that they will play no rôle whatever in the establishment and early development of a world security organization.

A fourth great Power—France—also suffered military defeat, and went through four years of German occupation and pillage. A new France is rising from the ashes, and has already regained some voice in European councils. But there is little ground for hope that France can recover quickly, if ever, the position of leadership held as recently as the early nineteen-thirties. As a result of all these developments, central and western Europe is in danger of becoming a political vacuum, and politics like nature abhors a vacuum.

Of the original seven, there remain Great Britain, the Soviet Union and the United States, significantly designated the Big Three. To these is tentatively added an eighth—China—whose heroic defense and critically important geographical position has won for the Chinese a provisional status and a voice in Far Eastern affairs far in excess of the realities of their power today.

China today is not a great Power. China is a big country, with a huge population, and considerable mineral resources. But the country has almost no industrial plant. It lacks a modern transportation system, and has yet to achieve an assured political unity and stability. The United States has long regarded a strong united China as a prerequisite of peace

and order in the Far East. Chinese ability to achieve this status, in fact as well as in theory, will determine in large degree whether the Far East too is to become a political vacuum following the defeat of Japan.

Of the Big Three, the future position of Great Britain is the most uncertain. Britain, in the words of a leading London journal, *The Economist*, emerges from the war a "conditional Great Power". The conditions, according to *The Economist*, are three. The first is "that the British Commonwealth and Empire continue to act together as a unit." The second, "that the communications between them remain open." The third, that Britain does not incur the active hostility of the United States. If these conditions are met, Britain still ranks with the strongest.<sup>2</sup>

Will they be met? With respect to conditions one and three, relating respectively to the Dominions and to the United States, the answer is probably "yes". But the future security of British sea communications is more doubtful. It would seem to depend upon still a fourth condition: that northwestern Europe does not again become the seat of a great military Power hostile to Great Britain.

But Britain's rôle, it should be recognized, cannot be measured solely by a strategical yardstick. Britain has a rich heritage of leadership. London is still the capital of a vast and far-flung empire. British freedom of diplomatic maneuver may well be less than Russia's or our own. But British influence today still ranks with that of Moscow and Washington.

The Soviet Union and the United States seem destined to be the political giants of the post-war world. In several respects their situation is quite similar. Both occupy the heart of a continent. Both stand in a central position between the two great oceans, Atlantic and Pacific. Both are centrally located between Europe and the Far East. The American people have traditionally enjoyed an inherently strong defensive position derived from their geographical remoteness from other centers of great power. The Soviet peoples will enjoy a comparable detachment from powerful neighbors after the defeat of Germany and Japan.

The similarity of the Soviet and American positions extends to economic resources. Both nations possess within their own frontiers greater mineral wealth and greater diversity of raw materials than does any other politically unified area upon the globe. Each possesses one of the three richest food-growing regions, the third being in Argentina. Both have presumptively secure access to essential supplementary resources in adjoining or near-by friendly countries.

The United States has a long head start in economic development. The Soviet Union is further handicapped by the necessity of rebuilding huge

<sup>2</sup> March 11, 1944, p. 331.

areas laid waste by the German invaders. But the Russians were making prodigious strides before the war. They have accomplished miracles with a partially crippled industrial plant during the war. Few would venture to prophesy that the Soviet Union's larger, younger and more rapidly growing population may not overtake our industrial lead within two or three decades.

The emergence of the Soviet Union as the strongest, if not actually dominant, Power in Eurasia is one of the most revolutionary developments of our time. This development affects most immediately the peoples of Europe and Asia. But it also changes fundamentally the distribution and balance of political forces throughout the world.

The argument thus far can be summarized somewhat as follows: The present war and a rapidly advancing technology have unstabilized all international relations. An unprecedented concentration of power is taking place. The number of really great Powers is being drastically reduced to two, or at most three. The Soviet Union and the United States have become, and seem certain to remain for some time, far stronger than all others.

From this point it is but a step to the next proposition: that in the policies of the Soviet Union and of the United States, and in their mutual relations, lies the key to success or failure of all efforts to establish any workable organization for the enforcement of security and the preservation of peace.

This proposition in no way minimizes or belittles the rôle of Great Britain, or of France, China, or still other nations. The attitude of these states, especially Britain, is extremely important. But their combined strength and opportunities for leadership would be insufficient to preserve peace in the face of deteriorating relations between the Soviet Union and the United States.

Such a catastrophe could take shape in a number of ways. Any attempt on our part, alone or in concert with Britain, to mold the states of Europe into an anti-Soviet bloc would almost certainly precipitate a power struggle with the Kremlin. Conversely, Russian attempts to reach out into the oceanic realm would just as certainly provoke defensive measures on the part of the Anglo-Saxon peoples. Serious deterioration of Soviet-American relations would bring into play all the weapons in the ideological as well as the political and military arsenals. One of the first fruits of such a struggle would be extinction of hopes for a stable enduring peace.

Fortunately, the major trend seems to be in the opposite direction. There is no denying the evidences of Soviet suspicion and distrust of Britain and America. It cannot be denied that such feelings are reciprocal. But

all evidence seems to indicate that most Russians, like most Englishmen and Americans, desire nothing so much as a long period of uninterrupted peace. And there seems to be, in the main, a genuine determination on both sides to accommodate their different ways of life, to compromise conflicting interests, and to get on together in the critical years that lie ahead.

Strategical facts favor such an accommodation. The Soviet Union and the United States have no common land frontier. They have no historic quarrels, except the ideological differences growing out of the Russian Revolution. Their vital strategic interests conflict at very few points upon the globe. Geography makes Russia predominantly a land Power, and puts serious obstacles in the way of her becoming a major sea Power. The United States is first and foremost a great sea Power, for geographical reasons equally compelling. Aviation reinforces the unique strategical opportunities of each, without seriously jeopardizing the security of the other.

It is impossible to overemphasize the supreme importance of a large area of accord and agreement among the Big Three—Russia, Britain and the United States. Without it no world security organization could function at all. If, however, these greatest Powers can carry beyond victory the solidarity forged in the heat of battle, the chances of success for any security charter are immensely improved. Big Three solidarity is a *sine qua non* of an enduring peace. Of that there can be no doubt.

It is more difficult to ascertain the probable area of great Power agreement as to the ways and means of enforcing peace and achieving security. It seems reasonably clear that none of the great Powers is willing to put all its money upon any security organization however constituted. Each will retain its own military establishment and defenses intact, and it remains to be seen how much scientific and technical military information each will be willing to clear through an international staff committee.

It may be doubted whether any of the great Powers—certainly the Soviet Union, and probably also the United States and Great Britain—would ever ratify a security charter which did not give them the legal means of blocking coercive action deemed contrary to their vital interests. If this be so, it is futile even to speculate whether an international security organization could ever take coercive action against one of its strongest members. It is equally futile to speculate whether such action could be taken against a lesser state over the determined opposition of the strongest. Even assuming that voting arrangements made such action technically possible, any persistent attempt to proceed against the unyielding opposition of one of the great Powers would probably wreck the Organization at the very least, and might even lead to war.

It is doubtful, furthermore, if any security organization could function with one of the greatest Powers absent. The absent Power, especially if it were the Soviet Union, would almost certainly regard the Organization as a menace to its own security, and could be expected to set about building up its own rival coalition to block it. The eventual outcome of such a struggle could be scarcely other than total war to the death.

The pre-war example of the United States, outside but not hostile to the League of Nations, is sometimes cited. That example, it is submitted, is scarcely relevant as an indication of presumptive Soviet, or even British or American, policy under possible future circumstances. The pre-war distribution of power was totally different. No one state represented a military potential and a relative power position comparable to that of either the Soviet Union or the United States today. With two such giants, it is probably all in or all out.

That the weaker nations bitterly resent giving these prerogatives to the great Powers is already evident. That they might combine to prevent the creation of an organization so constituted is conceivable.

The attitude of these lesser Powers is easily understood. They feel increasingly insecure as a result of the developments sketched. They desperately want some guarantee against their towering neighbors. Their spokesmen also have the perfectly human desire to share in the psychic dividends derived from having a voice in the decision of great international questions. That some of the lesser states will remain intransigent is possible. That few, if any of them, will acknowledge their real dilemma is altogether probable.

Their dilemma is a hard one. It is especially so for those small countries which have a high level of culture and a rich political tradition. By opposing an international charter which legalizes the *de facto* primacy of a few great Powers, they would run the risk of getting no world organization at all. Yet the probable alternatives for them are worse. These are either the perpetuation of great Power rule through such *ad hoc* and secret arrangements as have prevailed during wartime, or unregulated rivalry among the great Powers.

Only time can tell how far any security organization can succeed in protecting the weak against the strong in our imperfect world. One suspects that much will depend upon the moral values which guide great Power diplomacy, and upon the restraints which the great Powers are willing to impose upon themselves. It was, in part, the repudiation of such moral values and restraints that made German rule in Europe and Japanese rule in the Far East so odious to the conquered peoples. Spokesmen for the principal United Nations have repeatedly denounced the tyranny of such rule. Of their intention to exercise their own power with

restraint and moral responsibility, there seems to be no doubt. If they can put their relations with each other, and with the smaller and weaker peoples, upon a basis of mutual trust and confidence, the unprecedented power in the hands of the few can provide the foundation of an enduring peace with security, and with it a sense of security for all nations.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN KIRK: Thank you very much. From this discussion of the rôle of the large states, we turn naturally to the problem of the future position of the smaller states of the world. We are exceedingly fortunate this morning in that we have for our next speaker, Professor Arnold Wolfers of the Department of International Relations at Yale, Master of Pierson College of that University, who not only is one of our most distinguished professional students of international relations but also speaks on this particular question with the natural interest of a native son of Switzerland. Professor Wolfers!

## THE ROLE OF THE SMALL STATES IN THE ENFORCEMENT OF INTERNATIONAL PEACE

ARNOLD WOLFERS

Professor of International Relations, Yale University

THERE need be no quarrel with those who emphasize that the maintenance of peace depends largely on the great Powers and that a third world war can be prevented only if the relationship between the Big Three continues to be one of close collaboration and friendship. This does not mean, however, that the present war has suddenly changed the character of the world and concentrated all power and influence in the hands of the great nations. The small countries and what are now being called the "middle Powers" not only continue to exist in large numbers but will, when peace returns, be found to carry considerable weight. If, in the present war, they have proved themselves to be militarily weak, this was almost equally true of them in the past. There is nothing new in the fact that weak countries cannot trust their own military power to prevent aggression by a great neighbor or to liberate themselves from their conquerors. To point to the liberation of many of them by the Allied armies in this war does not prove, therefore, that their rôle has become less significant than it was before. Already, as the war draws to a close, more attention is being given them. Their recent reëmergence as a political factor goes back to American initiative.

When this country declared itself for a universal security organization, thereby setting aside the idea of a grand alliance composed exclusively of great Powers, it was paying tribute to the rôle of the lesser nations. It also gave them political bargaining power, since their consent is needed if such an organization is to come into being. The purpose of the San Francisco Conference is no other than to get the smaller nations to agree to a plan of organization based on the proposals worked out by the Big Three or Big Four at Dumbarton Oaks.

The smaller countries may not be entirely free to reject the Charter submitted to them, since every alternative might turn out to be far more distasteful to them. But they also know how much the American government desires to reach an agreement with them in order to avoid a failure of the Conference and a swing of public opinion back to isolationism.

The United States has a traditional interest in the friendship of small Powers. The Good Neighbor Policy needs only to be mentioned to remind one of the patient efforts made in the course of years to establish relations of mutual confidence with the American Republics. Britain is in the same position. Since the British Commonwealth is an alignment of Great Britain with lesser Powers, the opinions of Canada, Australia or New Zealand must necessarily carry much weight with Britain. She could, in fact, not be counted among the three great Powers if it were not because she can so readily rely on the support of the Dominions.

The Soviet Union appears least concerned about the small countries. Soviet spokesmen are taking the view that all power of decision should rest with the real victors of the war. They often speak with contempt of the sentimentalists who turn their attention to weak countries, many of which owe their continued existence to the Red armies. Soviet experience in the past offers some explanation for this attitude. The Soviet Union was isolated throughout most of her brief history; she has been able to count on little friendship from her lesser neighbors. Then, too, her system of government may permit her more readily to turn small neighboring countries into satellites who will follow any lead given by the Soviet Union. It would be surprising, however, if in the course of the coming peace era Russia would not come to realize how much her security and influence in the world depend on the confidence she can inspire and the voluntary collaboration she can obtain from the many lesser Powers which surround her on almost all sides.

If at San Francisco the consent of the small states is a matter of major concern to this country, their criticism of the Dumbarton Oaks Charter should be taken very seriously. The United States might easily find itself caught between Soviet Russia's opposition to any significant concessions to the lesser Powers and the strong demands for revision of the Charter by Latin American Republics, British Dominions and European countries.

The interests of the small Powers in regard to an international security organization cannot be easily defined because these countries fall not into one but into at least two categories. One group consists of countries which, being extremely vulnerable to an attack by one of their great neighbors, are primarily concerned with guarantees against such an attack. If it should be found that the proposed Organization cannot offer reliable protection against that particular country, the interest of these small countries in the Organization is likely to dwindle.

The other group is composed of small states which, because of their geographical location, have little reason to fear an attack on their territory. They are afraid of becoming entangled in coercive or belligerent action

as a result of which they might become a battlefield for others. Countries like Canada, Sweden or Turkey might fall into this category.

Notwithstanding these differences of interest and outlook, something of a common attitude toward the planned security Organization seems to express itself in the utterances of spokesmen for the small Powers. All seem to prefer an international security organization to a grand alliance of the great Powers. One might ask oneself why they are so much interested in sharing the responsibility for peace. Is it a matter of sheer prestige, or of blind faith in the symbol of sovereign equality? The answer is "no". The small countries have a vital interest in participating in the consultation and decision-making of the great Powers. Friendly collaboration between the major Powers, while being a prerequisite to peace, is also a dynamic process which might degenerate into "deals" at the expense of lesser Powers; too often in the past has peace between the great Powers been preserved in that fashion. One need not think of the extreme case of a partition of a small country, but rather of intervention in its internal affairs or other interference with its interests or rights. The presence of small countries on the Security Council, given the existing solidarity among the weaker countries, offers valuable safeguards against such a contingency. It would be regrettable if, for the sake of increasing these safeguards, the number of small countries represented on the Security Council should be increased to a point where the Council would lose its effectiveness or cease to be of interest to the major Powers.

The small countries favor an international security organization for another reason which carries decisive weight with some of the European countries—they regard such an organization as the only means of assuring United States collaboration in the preservation of peace. Anything that will put an end to American isolationism is welcomed by them and may induce them to make considerable sacrifices. The reason for their fear of American isolationism is not hard to guess. Without the United States many of them cannot feel secure from another resurgence of Germany or of Japan; without participation by the United States the power of the Soviet Union could not be balanced by any grouping of countries.

It may seem shocking to speak of the balance of power in this connection. To most people in this country, the International Organization appears desirable because it represents an alternative to the old and discredited balance of power. Paradoxically enough, in the weaker countries of Europe and Asia, the opposite view is being held; the International Organization is being heralded as a means of creating a more balanced world, one in which the Soviet Union and the English-speaking countries, while taking a common interest in the preservation of peace, will carry approximately equal weight.

The small Powers have accepted the idea of great Power leadership within the new Organization and appear willing to consent to considerable privileges for the leading Powers. This indicates a remarkable break with traditional attitudes. Apparently the smaller countries have come to understand that the failure of the League of Nations was due largely to the fact that the big Powers did not identify themselves with the organization and did not regard its interests as their own. This, by the way, is different from saying that they blame themselves or their equality of rights for the fall of the League; they have no reason to do so. No case is known in which a small Power prevented the League from taking strong and effective action.

If the small Powers have good reasons for favoring the establishment of a security organization and for being agreeable to some of the proposals worked out at Dumbarton Oaks, there are, nevertheless, other provisions in the Charter which arouse their opposition. It might be well for the great Powers to be prepared to make some rather fundamental changes in the Charter in order to induce the lesser Powers to accept membership in the Organization.

Much attention has quite naturally been given in this connection to the proposed veto powers of the major countries. Their right—a right denied to the other members—to veto any coercive action, whether it be directed against themselves or against others, constitutes a far-reaching privilege and a break with the traditional legal equality of all sovereign states.

It is well to emphasize that the weaker countries will gain some advantages from this veto. Since it means that the Organization can take no coercive action that is not agreeable to all of its great members, no small Power will be committing itself to action which might displease one of its powerful neighbors. More specifically, membership in the Organization will commit no country to take part in any war in which the great victors of this war would be fighting on opposite sides. This very substantially reduces the risks which small Powers might otherwise incur.

But if this is an advantage to them, it is accompanied by serious disadvantages. The fact that coercive action is made to depend on the consent of all of the major Powers greatly diminishes the protection which the Organization can offer to weaker countries; it does not leave the Organization with the "teeth" for which there has been so much demand.

Since the veto provisions weaken the coercive features of the Organization, countries in fear of attack will prefer to rely on bilateral or multilateral alliances directed specifically against countries the intentions of which they fear. While they will not consider these special alignments incompatible with the over-all organization, they will want to make sure that the security Organization does not take the teeth out of the

special agreements. Thus France and other neighbors of Germany may wish to be authorized to take action for the prevention of German rearmament without having to wait for the consent of the Security Council. Similarly, some of the countries of South America may press for a kind of mandate to the American Republics, constituted as a regional group, empowering them to take coercive action in this hemisphere without having to wait for the consent of countries such as Great Britain or the Soviet Union.

While the great Power veto is likely to draw much criticism because it so clearly indicates a differentiation between the rights of the big and the small Powers, there are other provisions in the Charter which may turn out to be of even graver concern to the small countries. These provisions deal not so much with what the great Powers can do but with the rôle assigned to the lesser countries in coercive action undertaken by the Organization. Unfortunately, the Dumbarton Oaks Charter lacks clarity in this respect.

It might be well to remember the expectations of many people in this country when a new international security organization was first being proposed. It was assumed that all countries would give up an essential part of their sovereignty and leave it to a majority of a council to decide when they and others should take action against a country threatening or violating the peace. By the introduction of the veto power the major countries are being excluded from any such sacrifice of their sovereignty; their participation in coercive action will continue to depend on their own individual decision. It would have been surprising if any major Power had accepted any other solution, but that makes it all the more imperative to find out where this leaves the smaller countries.

Of one thing there can be no doubt: The majority of the Security Council, meaning in fact the great Powers, will have the right to take any action, military or other, which it deems necessary for the purpose of maintaining or restoring peace and security. Furthermore, according to the Charter, such action shall be regarded as being undertaken on behalf of the whole Organization. This means that whenever the great Powers agree to act together and succeed in obtaining the concurrence of one or two of the lesser Powers on the Council, their action, whatever it be, shall be deemed to represent the interests of the whole community. The other members of the Organization shall be required to put no obstacles in the way of such action and shall refrain from giving assistance to the opponent. This is a reasonable but nevertheless a far-reaching concession on the part of those nations which were either not represented on the Council or, while being represented, voted against the decision. The concession is greater because of the fact that the Security Council is not accountable

to any assembly or parliament and because its most powerful members are not elected but hold their position merely on the grounds of superior power. Even so, little opposition has been voiced to this provision except that some of the middle Powers wish to be represented on the Security Council in order to be able to influence its decisions.

But the Charter makes far more drastic demands on the lesser Powers. The majority of the Council not only can decide to go into action in the name of the Organization but it can order the other members to participate even though they may not have agreed with its decisions or may not have had an opportunity to express their opinions. Exactly how far the Council can go in forcing the hand of other members is not clearly stated in the text. In Chapter VI of the Charter it is said that all members "should obligate themselves to accept decisions of the Security Council *and to carry them out.*" In Chapter VIII, where coercive military action is specifically discussed, it is stated that all members should "contribute to the maintenance of international peace and security" by undertaking "to make available to the Security Council on its call *and in accordance with special agreement or agreements concluded among themselves* armed forces, facilities and assistance necessary for the purpose of maintaining international peace and security." This might seem to imply that active participation depends on whether a country has been willing in advance to negotiate such special agreements, but while the text goes on to say that these special agreements should govern the numbers and types of forces and the nature of facilities and assistance to be provided, it does not appear to make assistance, that is, in the form of a passage of troops or the use of ports and bases, dependent on prior agreements among the members.

If this be the proper interpretation of the Charter, it would mean that any member of the Organization could be drawn into action hostile to another country without having had a chance to decide for itself whether such a step is compatible with its vital interests. Its territory, for instance, would be automatically at the disposal of the Council. That, obviously, would mark the end of sovereignty for all but the major Powers. One needs only to be reminded that Great Britain has never been able to order the Dominions into action for her protection to realize the radical nature of such provisions. It is hard to believe that the British Dominions would grant powers to a majority of the Security Council which they would never have considered giving to Great Britain.

Fortunately, in view of the opposition which such a proposal is likely to encounter, this far-reaching departure from sovereign equality is not necessary for the effectiveness of the Organization. In most cases, a weak country will not refuse participation if all of the great Powers urge it to

join them. A coalition composed of all of the great Powers operating against a lesser Power should be able to give such convincing evidence of its strength that small Powers would feel that they were incurring no undue risk if they permitted the use of their territory. However, there might be refusals as there have been in this war. The fact that Eire did not open her ports to Britain or the United States or that Turkish airfields were not made available to the air forces of the United Nations when the Germans were being driven out of the Balkans undeniably hampered the war effort of the United Nations; a similar attitude might again, in the case of action by the International Organization, delay victory.

In view of the delays caused by neutral Powers and in view of the fact that the belligerents are sacrificing the lives and property of their peoples to win the war, it is too much to ask that they be sympathetic to the neutrals who have remained on the side lines. It should be remembered, however, that such neutrality may have been the lesser evil. If small countries neighboring on the aggressor find themselves exposed to early conquest—as they were from 1939 to 1941 and as they may well be again under an international organization, since it takes time to organize defensive measures—they may have no choice, except for national suicide, but to throw in their lot with the aggressor or to remain neutral. It is not logical to ask the weaker nations to incur the risk of irreparable damage and complete destruction while at the same time demanding privileges for the great Powers on the ground that they will have to bear the brunt of the burden.

This does not mean that any effort should be spared to obtain from as many lesser Powers as possible binding commitments which will obligate them to participate in coercive action undertaken by the Council. All member countries, presumably, will have to undertake not to give economic assistance to an opponent of the Organization and to offer positive economic aid to the countries acting for the Organization. Some smaller countries like Belgium or Czechoslovakia, urgently in need of guarantees of security, may be willing to promise participation without any reservation; others may wish to protect themselves by a clause permitting them to refuse active participation, such as the use of their territory, in cases where they would incur risks disproportionate to the services they could render. More can hardly be expected; it is questionable whether it would be wise to press for more at this time.

There are several reasons for this. In the first place, more radical provisions may prevent some of the lesser countries from joining the Organization; in that case, they would retain a completely free hand. In the second place, it has never paid to commit nations to a course of action

with which they do not wholeheartedly agree. In an emergency they will find reasons to evade their obligations, thereby reducing the reliability of all of the engagements. This means that the success of the Organization should rest on the ability of the great Powers to gain from other countries all the voluntary coöperation they need. Their privileges and their leadership will be far more secure if, instead of asking for a blank check, they rely on their ability to convince enough nations of the wisdom of their course. This country certainly would be paying an unduly high price if it were to forfeit the good will of the weaker Powers for the sake of obtaining powers for the Council which would only provoke resentment and anxiety.

[Because of limitations of space, the discussion from the floor under the five-minute rule at the morning session, and at all other sessions, has been omitted from these PROCEEDINGS.—ED.]

## PART II

### PLANNING FOR WORLD MONETARY STABILITY

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#### INTRODUCTION

W. RANDOLPH BURGESS, *Presiding*

Vice-Chairman of the Board, National City Bank of New York  
Trustee of the Academy of Political Science

IT is an interesting thing that in the period of this war the discussions of monetary stability have gone forward as far as they have. As I recall it, following World War I, it was some time after the close of hostilities when such discussions really became serious; but now, if you mention international coöperation, everybody thinks of Bretton Woods.

There are advantages and disadvantages in this fact. One of the disadvantages is the danger that we may focus our attention too much on mechanism and not enough on the deeper problems. But looked at more broadly, I believe that there is a great advantage in the fact that our discussions have carried us this far. We all owe a debt of gratitude to those in the Treasury and other government departments and to others who have carried the discussion so far forward that the entire country is now interested, and vitally interested, in plans for monetary stability after the war—not only interested but considering practical plans for its realization.

We want to open our discussion this afternoon with a broad survey of the international economic background; and, fortunately, we have as our speaker a distinguished Professor of Economics from Harvard, who, for some five years past, has been in Washington working with the State Department, first, as a consultant, and latterly as the Deputy to the Assistant Secretary of State in Charge of Economic Affairs. The Assistant with that long name is, as you know, Will Clayton, and Dr. Mason is his deputy.

I have great pleasure in introducing Dr. Edward S. Mason of the State Department.

\* Opening remarks at the Second Session of the Semi-annual Meeting.

## THE INTERNATIONAL ECONOMIC BACKGROUND

EDWARD S. MASON

Deputy to the Assistant Secretary of State for Economic Affairs  
Professor of Economics, Harvard University

THOSE who have been thinking seriously in recent months about world economic reconstruction are not inclined to unrestrained optimism. They see on one hand an array of problems of enormous—perhaps unprecedented—complexity and on the other a series of obstacles to effective action which entail the danger that we shall do too little too late. They warn that we shall be too easily discouraged unless we are prepared to make progress by inches, and to accept occasional reverses.

Most of us probably share this predisposition in greater or lesser degree. There is, however, another face to the picture which gives ground for more hopeful expectations. We may take courage from the fact that our position today is stronger than that of the peacemakers of twenty-five years ago in several important respects. We today are acutely aware, as our predecessors were not, of the necessity of providing a firm economic base for the political peace. We have the advantage, moreover, of the costly but precious experiences of these twenty-five years, hardly one of which does not yield lessons which are relevant to the problems we face now. Most important, however, is the striking popular unanimity on the proposition that victory will not guarantee lasting peace and prosperity, but will only win us the right to work for these goals.

The yearning for peace and the desire for economic well-being are the two most powerful forces which will shape the post-war world. The strength and universality of these ideas are rooted in the two central events of recent years—the greatest depression in modern times and the greatest war in history. Against this background it should occasion no surprise that proposals for the post-war reform of this or that, which are not directly and immediately related to these primary goals, should meet with popular inattention or impatience. It follows that programs which will in fact contribute to the achievement of these goals must be presented and advocated in terms which make clear this relationship to peace and economic well-being.

If it has been difficult to attract a wide audience for proposals in the field of international financial and commercial policy, it is because these matters are complicated, technical, and certainly not dramatic. The

disposition to leave these matters to the experts reflects the view that they are probably not very important, and presages apathy over their fate. If a convincing case can be made out that either peace or prosperity or both are dependent on the proper solution of this range of problems, then a hearing must be secured.

Peace and plenty are not synonymous terms. Nations have gone to war in periods of relative economic well-being, and peace has been preserved in times of general economic distress. There are few today, however, who would question seriously the necessity of creating healthy economic conditions as a bulwark to the preservation of peace. If the fact were not clear enough before, the turmoil of the pre-war years affords ample evidence that economic distress is a fertile breeding ground for political upheaval, which is as likely as not to take the form of military adventure. Poverty and hunger invite demagogues to trade on the misery of the people, and permit them to capitalize on the simple and widely perceived relationship between the military budget and the level of employment. It is no longer a secret to the man in the street that any industrial nation can generate boom conditions by launching a vast armaments program. There is hardly a more portentous omen for the building of the peace than the popular perception of this truth. Never was the danger greater that, if other means fail, military expenditures will become the principal instrument for the achievement of prosperity.

Flourishing world trade is essential to the economic well-being of all nations. At one time, it would not have been necessary to defend this assertion. Today, however, many of us have become so exclusively concerned with the problem of finding a job for every worker that we slip into the error of equating economic well-being with numerical full employment, and tend to neglect the fact that numerical full employment is also compatible with a relatively low standard of living.

If our only purpose is to keep everybody busy, we need not give much attention to the international exchange of goods. Any nation which is willing to place its economic system in a strait jacket and run it on the command principle can assure numerical full employment independently of the volume of exports or imports. For many countries, however, numerical full employment in an atmosphere of stagnant world trade would mean dire distress. The British cannot eat their woolens, nor can the Chileans wear their copper. We tend to give less attention than do most other countries to the real income aspect of the employment problem, and to the function of international trade in maximizing real income, because the great diversity of our natural resources and productive facilities is assurance that our economic well-being would suffer least from a contraction of world trade. But suffer it would. We perhaps can live alone, but we would not live as well as we might and we certainly would

not like it. We would dislike particularly the detailed government controls and regulation of economic life which would be involved in any attempt at full employment in a self-sufficient economy.

The fact is that no nation can neglect international trade without jeopardizing the material well-being of its people. In a great many countries—and no country is too small or unimportant that it cannot endanger the preservation of peace—the volume of international trade is the major determinant of living standards. The economic conditions which best serve the interests of peace entail not only that every worker shall have a job, but that he shall be permitted to produce the goods which he can make most efficiently, and to exchange them for the goods he most desires.

The distinction between numerical full employment—or just keeping busy—and productive employment—or working with maximum efficiency—is especially useful in an approach to the international monetary problem. The traditional self-regulating gold standard, associated as it was with a relatively free multilateral trading system, was oriented toward the achievement of productive employment. In the context of modern economic organization, however, the self-regulating gold standard is widely criticized—and justly so—on the grounds that its adoption would prejudice the achievement of numerical full employment. On the other hand, the world monetary system, if it can be called a system, which arose in the nineteen-thirties, tended to impair the productivity of employment by focusing principally on the objective of achieving numerical full employment.

The gold standard, in imposing an iron stability on exchange rates, required that basic adjustments to changed circumstances of world trade be accomplished by alterations in the levels of internal prices and wages. In the modern industrial economy, however, easy flexibility in prices and wages simply does not exist. In these circumstances, forces set in motion within the framework of the gold standard, since they cannot yield their results via prices and wages, tend instead to produce idle plants and idle workers.

The monetary chaos of the nineteen-thirties, however, resulted from a wide variety of national policies designed to stimulate high-level numerical employment at the cost of impairing the productivity of economic endeavor. The substitution of a bilateral system of payments for a multilateral system meant in effect that importers were forbidden to buy in the cheapest market, and exporters to sell in the dearest. It is now clear that the unilateral monetary devices used to encourage high numerical employment largely canceled each other out. Competitive exchange depreciation as a means of exporting unemployment to foreign countries was shown to be ineffectual when foreign countries promptly adopted retaliatory measures.

The world will not accept a return to the gold standard because the nations are unwilling to sacrifice their domestic economic objectives to rigid exchange stability. At the same time the nations have learned from the bitter experiences of the nineteen-thirties that the turbulent monetary policies characteristic of this period were self-defeating and are not capable of achieving the maximization of economic well-being.

The proposed International Monetary Fund is a mechanism which, if properly implemented and supported by international action in related fields, is capable of providing both a stimulus to numerical full employment and a stimulus to productive employment. It would be folly to claim that the Fund is of itself capable of assuring high, stable levels of employment. It can, however, make a substantial contribution to the achievement of this goal. The Fund provides a mechanism to facilitate the correction of basic maladjustments by the expansion rather than the contraction of trade. In the nineteen-thirties a country which faced a deficit in its balance of payments typically endeavored to reduce its imports. Under the procedures contemplated by the Fund, it is at least more likely that corrective measures will be taken by surplus countries as well. Such measures, since they would involve the increase of imports by the surplus countries, would constitute correctives of an expansionist character. Moreover, by providing an emergency reservoir of foreign exchange for use when balance of payments difficulties arise, the Fund should reduce the danger that cycles of deflation may be launched in some countries and spread to others because of deflationary measures undertaken to protect falling reserves of gold and foreign exchange. It can also be claimed for the Fund that the realization of relatively stable exchange rates and the achievement of free interconvertibility of currencies will encourage a substantially higher volume of international investment than would otherwise take place. Increased investment, of course, is a source of added employment in both the lending and borrowing countries.

The Fund is of major importance, moreover, as a mechanism for increasing the international flow of goods, or, to state the same thing in another way, the productivity rather than the volume of employment. Relatively stable exchanges are a strong impetus to the international movement of goods, for such stability would remove much of the riskiness from transactions across national borders. Moreover, by working toward the elimination of exchange controls, the Fund seeks to reduce the barriers to trade which are entailed in the transfer problem. Free interconvertibility of currencies means that exporters can be paid in money they can use, rather than in blocked credits in foreign banks.

However, although the Fund may provide an international monetary framework which will stimulate a high level of employment and more productive employment, it is emphatically not sufficient unto itself for

the full achievement of these ends. If it were left unprotected to weather the storms of transition from war to peace, or to absorb the economic maladjustments which existed before the war and which have been intensified by the war, the effectiveness of the Fund would be seriously impaired. Many of the ills which characterize the world economy are not monetary in nature and are not subject to monetary therapeutics. It cannot be reiterated too often that the Fund is incapable of performing miracles in the way of world economic reconstruction.

Looting and physical devastation have robbed the countries of western Europe of much of their productive resources. The needs of reconstruction will produce a great demand for imports at a time when these countries are incapable of producing large exports to finance their import programs. Foreign holdings of gold and dollars are in the aggregate large. Unfortunately, however, these holdings are unevenly distributed among foreign countries, and the countries whose needs are greatest do not hold gold and dollars in sufficient volume.

If the Fund had to bear the brunt of these trade deficits, its holdings of dollars and other strong currencies might be dissipated in the transition period before the operation of longer-run corrective forces could come into play. Fortunately, however, this threat was clearly foreseen and met in advance. The Articles of the Fund wisely provide that the facilities of the Fund shall not be used for purposes of relief or reconstruction. It is anticipated that the trade deficits arising out of reconstruction imports will be met in part by international credits, private and public, guaranteed by the proposed International Bank for Reconstruction and Development. If the Bank's facilities are not adequate, other sources of credit—such, for example, as an expanded Export-Import Bank—may have to be provided. Thus, in so far as reconstruction problems are concerned, the Bank and other sources of long-term credit are the strong right arm and shield of the Monetary Fund. At the same time, the Fund would itself provide encouragement and assurance to private capital seeking investment abroad, and would thus make possible a fuller realization of the potentialities of the Bank. The sum total of what the Fund and Bank can achieve together is greater than their separate contributions.

Although the Fund appears to be sufficiently insulated against the dangers of reconstruction deficits, there are yet other and deeper-lying maladjustments, inherited in aggravated form from the pre-war period, which may strain the facilities of the Fund if adequate supplementary measures are not adopted. Of these maladjustments, the case of Great Britain is illustrative and most important.

Great Britain is irrevocably committed to a high degree of economic interdependence with the rest of the world. She must have imported food and raw materials to live. Even before the outbreak of war, however,

she was having difficulty in financing the requisite volume of necessary imports. The jungle growth in the nineteen-thirties of tariffs, quotas, licences, exchange controls and bilateral agreements limited the outlets for British exports and intensified Britain's difficulties in obtaining the foreign exchange necessary to balance her international accounts. She herself was forced to a variety of expedients to restrict imports and force exports in order to stabilize her situation.

Britain's position will be considerably weaker in the post-war period. Before the war she had a large unfavorable balance of trade. Her average annual imports in the period 1936-38 came to £950,000,000, against exports of £560,000,000. About half of this unfavorable balance of nearly £400,000,000 was financed by income from foreign investments, while another quarter was financed by shipping income. During the war, however, she has been forced to liquidate so many of her overseas investments that her post-war income from this source will be hardly more than half the pre-war figure. Her shipping income will also be gravely curtailed, for much of her merchant fleet has been lost to enemy action, and she faces the prospect of keen post-war shipping competition from the United States.

Moreover, there have been built up in London during the war blocked sterling balances which may aggregate three billion pounds at the close of the war. If these balances are funded, as appears possible, the servicing of these additional debts may offset a large part of Britain's remaining income from foreign investments. In the light of these facts, Britain's balance of payments plight can be characterized only as critical.

The Fund will not solve Britain's dilemma, nor will the Fund and the Bank together, for Britain's problem has implications which go far beyond the monetary and financial field. The two central forces capable of easing Britain's plight are, first, general and sustained world prosperity, and particularly prosperity in the United States; and second, a general and substantial reduction in the barriers to world trade. Both of these forces would operate powerfully to provide expanded export opportunities for Britain, whose abandonment of exchange controls at an early date, in accordance with the purposes of the Fund, would thus be facilitated. The British example is the leading case, but it is not unique. It highlights the fact that the full success of the Fund is dependent on the creation of a healthy economic environment.

The United States must play the central rôle in this work of world economic reconstruction. We shall almost certainly become the greatest creditor nation; we are the largest exporter and the second largest importer. We own the bulk of the world's stock of gold. Our industry, which has gained enormously in size and technical skill during the war, is capable of becoming the prime mover in the world's economic recon-

struction. We may play our rôle for good or for ill; but play it we must. If tariffs and other barriers to world trade are to be lowered; if nationalistic trade practices are to be proscribed; if a *modus vivendi* is to be worked out to govern the relations between state trading monopolies and private traders; if the problems of chronic commodity surpluses are to be handled coöperatively; and if the restrictive practices of international cartels are to be eliminated, the United States must not only coöperate with other nations to these ends but must take the leadership in promoting their attainment.

These are the broad categories of international collaboration in which action is necessary to the complete achievement of the purposes of the Bretton Woods Agreements. If Bretton Woods were to be the end as well as the beginning of international economic collaboration, it could not vindicate the ambitious hopes of its founders. The Fund cannot alone solve the problems of an economic world as chaotic and unbalanced as the post-war world is obviously going to be. It is not, however, expected to stand alone. It is envisaged as an integral part of a structure which will embrace other broad aspects of world economic coöperation.

Unfortunately, some of the opponents of the Bretton Woods proposals would have us believe that we should cease our efforts to secure the prompt establishment of the Fund until agreement is obtained on these other vitally necessary aspects of international economic coöperation. Such a course would, in my opinion, be unwise. In the first place, agreement on and adoption of the Bretton Woods proposals will pave the way for securing agreement on other effective measures of economic coöperation. In the second place, prompt implementation of the Bretton Woods proposals should bring with it immediate benefits which will make a substantial contribution to post-war economic order, even though they are not a panacea for all our ills. For us to hesitate now will be to increase and prolong the uncertainty as to the rôle of the United States in the post-war world. Without Bretton Woods the prospects of a broad program of world economic collaboration for peace and plenty in our time would be dim indeed.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN BURGESS: Thank you, Dr. Mason, for opening this subject. Now I have very great pleasure in introducing to you my old friend, Dr. John H. Williams, who is Dean of the Graduate School of Public Administration at Harvard and is also Vice-President of the Federal Reserve Bank in New York.

## THE BRETTON WOODS AGREEMENTS

JOHN H. WILLIAMS

Dean, Graduate School of Public Administration, Harvard University

### I

**T**HIS is the first time I have discussed the Bretton Woods proposals since last October.<sup>1</sup> Since then a bill approving the Final Articles of Agreement for an International Monetary Fund and a Bank for Reconstruction and Development has been submitted to Congress, and hearings have been begun by the House Committee on Banking and Currency, to be followed presumably by hearings in the Senate. The Treasury has conducted an intensive campaign of education, including articles in reply to critics, and many meetings with interested groups throughout the country. Numerous articles and some books have appeared, and banking and business organizations have made statements of their views.

In my *Foreign Affairs* paper last fall, I suggested adoption of the Bank, with modifications designed to permit it to perform some of the purposes of the Monetary Fund during the transition period from war to peace, and postponement for the present of a decision on the Fund. As the debate has developed in recent months, this has appeared to be the central issue. There has been general endorsement of the Bank but a widespread difference of views about the Fund.

When the debate about the Fund began with the publication of the original Keynes and White plans in April 1943, I thought that the main question was whether we should approach the problem in terms of a general international monetary organization, as those plans proposed, or should begin with the major countries whose currencies are the chief means of international payment and whose policies and circumstances will have a predominant effect upon the character of post-war international trade and currency relations. After Bretton Woods, I believed that a solution should be sought so far as possible within the framework of that Agreement, but, as I have listened in recent months to the discussion here and abroad and watched developments, I have become convinced, even more

<sup>1</sup> "International Monetary Plans: After Bretton Woods", *Foreign Affairs*, October 1944. This and a number of earlier papers are included in my book, *Postwar Monetary Plans and Other Essays* (New York, 2nd edition, 1945).

than before, that the question whether and when we should adopt the Fund should depend primarily upon what is done, outside the Fund, toward solving England's special problems.

## II

Before proceeding further with this question, I shall review briefly some of the more general issues around which the debate on the Fund has revolved.

The Fund is intended primarily as an agency of long-run monetary management. It is intended to give all member countries access to a common fund of currencies in order to meet the short-term fluctuations in their international position. The basic assumption for the successful operation of such a Fund is that there should be a tendency for international transactions to equalize, apart from short-term fluctuations, so that the Fund would not become lopsided, with some nations in the position of chronic debtors and others of chronic creditors in the Fund. Whether such an even-balance position could be maintained would depend partly upon the circumstances under which the Fund had to operate and partly upon the principles and policies of adjustment pursued by the Fund.

One of the early questions raised about the Fund by myself and others was whether in the abnormal conditions of the period of transition from war to peace the expectation of an even-balance position could be realized. It was in response to this criticism that the provision was introduced into the Fund Agreement prohibiting the use of the Fund for expenditures for relief, reconstruction and the liquidation of war balances. Actual avoidance in practice, however, of such use would be more difficult than its formal prohibition, which still leaves the question whether the Fund would not in fact be a catchall for inadequacies in the transitional arrangements. Nations would not know in advance just what they were using the Fund for. They would only know their over-all situation and would come to the Fund to cover any deficits that might arise. I still feel strongly that to put the Fund into effect during the transition period would involve the risk of wrecking it because of the unusual character of the conditions that it would have to confront.

A growing awareness of this danger, coupled, I think, with an awareness of the inadequacies of the Fund provisions regarding the methods of international adjustment whereby the Fund is to be maintained on an even keel, even under more normal conditions, seems to me to be responsible for a number of the suggestions that have been made about protecting the Fund. Treasury officials have said in their testimony that care would need to be exercised in putting the Fund into operation, that member countries would have to convince the governing body of the Fund that they

were in proper condition to begin using it, and that it would probably take a year or two after adoption to bring the Fund into operation.

Much of the discussion of the Fund has centered on the question whether members would have an automatic right to use it. The advocates of the Fund have stressed the fact that it provides for a graduated rate of interest and that the right to use it would normally be limited to 25 per cent a year of a nation's quota. Bankers and other critics of the Fund have questioned whether these and other safeguards now in the Fund Agreement are sufficient. A fear of misuse of the Fund has been a principal reason for suggesting that the Bank should be specifically empowered to make longer-term stabilization loans.

I have never sympathized with the idea that the way to protect the Fund is to make it operate like a bank. Critics of this general line of suggestion seem to me quite right in maintaining that this type of restriction on the use of the Fund will only undermine its usefulness. If the Fund is to operate as a common pool of foreign exchange resources, equivalent to gold, there must be the same freedom of access and of use as pertains to gold itself. To guard against possible misuses of the Fund by measures which undermine its essential logic seems to me a wrong approach. My own suggestion of a postponement of adoption of the Fund rests, in part, on the ground that the conditions of the transition period will not be suitable for it. To succeed at all, the Fund would need a trial under favorable circumstances. It seems to me better to wait until those circumstances have been achieved rather than to circumscribe the Fund with restrictions that deny its character.

A second major criticism which I have made relates to the technical or mechanical character of the Fund. As now designed, the Fund would be composed of a miscellany of forty-four national currencies, most of which are not used as international means of payment. Under the conditions of the immediate post-war period, and perhaps for a long period to come, it cannot even be assumed that the pound will be an internationally usable currency except within the sterling area and under the special bilateral currency agreements which England is now in process of arranging, particularly with the countries of western Europe. Thus, as a practical matter, we may be confronted with a large discrepancy between the demand for exchange as represented by the quotas of the member countries and the American obligation to supply dollars, which is limited to \$2.75 billion. This discrepancy will be aggravated by the fact that member countries coming to the Fund for a means of international payment will put up their currencies and obtain dollars which will be paid out of the Fund; whereas, since this country does not, for the most part, make its international payments by buying other currencies, there will be no way in

which, in the normal operations of the Fund, we can replace these dollars. What this means is that, even when we have an even balance of payments, there will be a tendency for dollars to seep out of the Fund. This is too technical a question to discuss further in this paper, but I do want to point out that, though there have been a number of official replies to critics, this point has been ignored, and we have been presented instead with a discussion of whether or not there is likely to be a scarcity of dollars in the general market, such as occurred during the inter-war period. To quote Dr. Harry White's paper in *Foreign Affairs*, January 1945: "Such a shortage, if it develops, will not be because of the Fund but in spite of the Fund. . . . The Fund cannot create a shortage of dollars." My point was expressly that the Fund mechanism could create a shortage of dollars in the Fund.<sup>2</sup>

I have not been able to find a solution of this difficulty which seems to me workable. Keynes's Clearing Union would have avoided it by making the obligation to supply dollars or any other desired currency equal to the aggregate size of his Clearing Union. But I do not think it is practicable now to raise so large a question, and it seems reasonably certain that the Clearing Union would encounter greater objection in this country than the Fund. The repurchase provisions of the Fund Agreement do not seem to provide an adequate solution of the problem, if we assume, as is evidently implied and intended by the interest charge and other provisions of the Fund Agreement, that it will be the countries without adequate exchange resources that will use the Fund. In any event it ought to be made clear that the recapture of dollars would require the maintenance of the machinery of exchange control, not merely for the transition period but permanently, and for current account transactions as well as for capital transactions.

A third set of questions relates to the provisions for exchange-rate variation and the methods of international trade adjustment. It should be on these, rather than upon the restrictions on the use of the Fund, that success or failure of the whole experiment should depend. I shall not attempt to add anything in this short paper to what I have previously said about the problem of international adjustment. I have always favored liberal provisions about exchange-rate variation, but on the assumption that this would be the rare, rather than the usual, method of international trade adjustment. I have been disturbed throughout the discussion by the great,

<sup>2</sup> I have seen two papers which address themselves to the question I raised. See A. F. Bourneuf, "Professor Williams and the Fund", *American Economic Review*, vol. 34, December 1944, pp. 840-47, and W. A. Brown, Jr., "The Repurchase Provisions of the Proposed International Monetary Fund", *American Economic Review*, vol. 35, March 1945, pp. 111-20. Neither, in my opinion, sees the problem I had in mind, but I cannot discuss them here.

and apparently growing, divergence of American and British public opinion on this point. It relates closely to what I shall say later about the British problem.

Unless we can find more common ground than has thus far appeared, I would rather proceed on the post-war problems of adjustment case by case without rules, because I am afraid we will descend into legalism, each country setting forth its own interpretations of the provisions and then defending them on legalistic grounds. We shall need economic analysis of the most objective and thorough kind rather than attempts to fence and hide behind forms of words.

One aspect of the problem of international adjustment on which I have especially insisted is that, in our search for relieving the harshness which the gold standard has at times entailed, the principle of two-sided international adjustment must not become submerged. As a method of international adjustment, a system which is the "exact opposite" of the gold standard, as Keynes has characterized the present Agreement, seems to me meaningless. The phrase often used, that we will permit exchange-rate variation but not competitive depreciation, also means to me very little. I cannot see any escape from the necessity for two-sided cost-price adjustments, in most circumstances, if we are to have anything that deserves to be called an international system. Exchange-rate variation does not provide an escape from price adjustments but changes their impact. It becomes a question of how much of the adjustment is to be borne by the internal economy of a country and how much is to be forced upon others. If we look objectively at the inter-war experience, we must recognize not only that the gold standard had a deflationary effect on some countries adhering to it, and notably on England in 1925-31,<sup>3</sup> but also that currency depreciation had a deflationary effect on the outside world, resulting in a vicious circle of depreciation in one country after another; the most striking example was the British depreciation of 1931 which deflated prices throughout the world. The problem is a difficult one. The attempt to escape into a system of exchange controls and bilateral trade was really an attempt to run away from both the gold standard and variable exchange rates.

One thing that has most troubled me during the entire course of the discussions has been the reiterated insistence by the British that the responsibility for international trade adjustment rests on the creditor country. I cannot avoid the conclusion that, taken against the background of this British discussion, the fact that the negotiation with regard to principles of adjustment resulted finally in the removal from the document of all

<sup>3</sup> England's experience really proved little, since, as all are agreed, the great mistake was in the overvaluation of the pound.

references to two-sided adjustment and the high-lighting of the one case of a possible dollar shortage means quite specifically that if we do not prevent a dollar shortage that fact will be taken to mean we have not discharged our responsibility, and have therefore given the rest of the world *carte blanche* to resume exchange control and trade discrimination as before. It is not that I wish to run away from this responsibility. It is only that I think it will not work unless there is a clear understanding that the responsibility must be shared. There is no action which a surplus country might take which does not have its counterpart for the deficit countries, whether it be in the sphere of price changes, trade changes, foreign investment, or any other method of adjustment that might be explored. Recognition of this fact is the only reasonable basis on which to proceed.

### III

This brings me back to the British problem. From the beginning, I have felt that England's situation in the post-war world will have a decisive effect upon whether the world moves toward multilateral trade with reasonably free and stable currencies or toward bilateral trade and currency arrangements. As time passes, the gravity of England's problem and its implications for the future become only more clear. It is not merely, or perhaps mainly, that England has now hanging over her an accumulation of over \$12 billion of international war indebtedness, growing at the rate of several billion dollars a year. There is the further fact that her current account balance in the post-war years will show a large annual deficit, owing to the loss of foreign assets, of foreign markets, of shipping, her need of sustained high imports for the transition period, and the probable requirement of some interest payment on the accumulated debt. England's current account deficit has been variously estimated at from \$1.2 billion to as high as \$2 billion a year in the immediate post-war period. How rapidly it will be corrected is a matter of conjecture.

Much emphasis has been laid in British comment on the necessity for maintaining full employment in both England and this country. The first effect of full employment in England would probably be seen in her imports; there have been estimates that at full employment her imports might exceed the pre-war level by as much as 50 per cent. The effect of full employment in this country must be divided into the direct and indirect effects. The direct effect on British exports would be slight since our imports from Britain amount to a small fraction of her exports. I have seen estimates which suggest that even the indirect effects, through Britain's trade with third countries, would probably not remove more than half of her current account deficit. Britain's problem is that her exports must rise much more than in proportion to the general growth

of production and trade throughout the world, even on optimistic assumptions about world trade and employment.

It is not difficult to see how England's problem complicates the general problem of international trade adjustment. Next to the desirability of an expansion of American imports, toward which high employment in this country would provide the chief impetus, the point most often made is that we can achieve international trade and currency adjustment through American foreign investment. This point is always included in the British statements so constantly repeated that a creditor nation need never have a larger surplus than it wants to have; it can always invest its foreign exchange surplus abroad, as England did in the nineteenth century, and in this way a dollar shortage could be avoided.<sup>4</sup> But it seems to me very doubtful whether in her special circumstances during the post-war period England would really welcome this method of adjustment if, as would almost inevitably be the case, our foreign investment were accompanied by a great expansion of our exports. Again, I am led back to the conclusion that in such a complicated problem no one nation should put itself in the position of appearing to assume the sole responsibility.

#### IV

It is essential to an understanding of the Bretton Woods Agreement to appreciate the fact that it is primarily the result of a long process of negotiation between the British and American experts, subsequently adhered to by the delegates of forty-four countries at Bretton Woods. The gist of the Agreement is that if this country will create and maintain the conditions necessary for multilateral trade in a reasonably free exchange market, England will undertake, after a transition period of three to five years during which exchange control and bilateral currency arrangements are permitted, to relinquish her controls and join a multilateral exchange system. The Agreement, however, carefully states that, even after the five-year period, the member country itself shall be the judge of whether the conditions are right for relaxing its controls. In weighing the adoption of the Fund, the essential question is whether there is a fair prospect that this bargain can be consummated.

Since the Bretton Woods Conference, England has been negotiating a series of bilateral currency agreements. The one with Belgium last October has been followed recently by agreements with Sweden and with France, and others are said to be in process of negotiation. Meanwhile, as the recent arrangement with Egypt indicates, the controls within the sterling

<sup>4</sup> This, of course, refers to a general dollar shortage in the market, not to the special shortage in the Fund which I discussed previously.

area are being tightened, and its supply of dollars rigidly controlled. These facts, taken together with what I have said about the extreme difficulty of England's position, her large war debt, and even more importantly her large annual deficit on current account, carry a strong presumption that during the transition years England will be moving further toward, rather than away from, a system of bilateral trade and currency agreements and will find herself under compulsion to intensify, rather than relax, her exchange controls.

Contemplation of this prospect has led me to wonder whether the transition from the transition period will not prove to be the really crucial problem. A set of vested interests and a network of discriminatory trade and currency practices will have grown up which it may prove very difficult to break down. Against these we would have the moral compulsions of the Fund Agreement. But with the responsibility resting on us to avoid a dollar shortage, and the further implied responsibility which runs all through the British comment that we must maintain full employment as a necessary condition of the successful operation of the Fund Agreement, it might be far from clear where the moral responsibility for failure lay. Meanwhile, in a world comprising a fully managed economy like that of Russia, a centrally planned economy in England, if anything like the Beveridge model should be adopted, and some kind of modified free enterprise system in this country, there will be much room for honest doubt as to whether a system of multilateral trade and free exchange is any longer workable.

As I said in beginning this paper, I have been impressed from the outset of the debate with the necessity of attempting to create the conditions under which this country and England can embark upon multilateral trade with reasonably free and stable exchange rates. If this could be done, the task of general international monetary and trade organization would not be difficult. If it is not done, I am becoming only more convinced, as time passes and the situation develops, that the approach in terms of a general world monetary organization will fail. Perhaps among people genuinely concerned for the future of international coöperation the issue boils down to a question whether adoption of the Monetary Fund, with whatever defects it may have, would not compel us to face up to the logic of its implications and to take the steps, outside the Fund, which are necessary for its eventual success, or whether, as I believe, it is necessary to face up to the situation in advance. If England is to find an escape from the road down which she appears to be heading, if she is to avoid the temptation of making a virtue of her bad situation and using blocked sterling balances to develop her trade connections bilaterally, she must have help during the transition period from countries—and especially from this country—which are genuinely interested in multilateral trade and stable exchange rates.

The situation calls for heroic measures, going far beyond anything that the Fund or the Bank could legitimately undertake. I have suggested the continuance of Lend-Lease for the transition period, but this now appears to be politically impracticable. I sometimes wonder whether the main effect of the Bretton Woods debate has not been to shift the emphasis from the concrete problem, on the solution of which the success of the Bretton Woods Agreement must depend, to more formal and abstract solutions which will give us a comfortable feeling of coöperation without the actuality. Perhaps the most unfortunate aspect of the discussion has been that in the heat of debate these two approaches have come to be regarded as alternatives, whereas what we need in the end is both. Some of the Bretton Woods delegates have made disparaging remarks about any form of direct aid to England, and the trend of the hearings before the House Committee has been such as to suggest that if the Bretton Woods Agreements are adopted, there will be no direct aid—at any rate not in the form of Lend-Lease or in the form of a credit on terms which England could afford to accept.

## V

My preference, therefore, is to adopt the Bank with some changes and to postpone the Fund until more favorable conditions have been developed for its operation. Among these conditions, I would list, first, a thorough exploration with the British government of possible methods of dealing with her problem along other than bilateral trade and currency lines. I would list, second, a thorough exploration of the problems of commercial policy. There is now in Congress a bill to continue the Reciprocal Trade Agreements Act, which expires in June, with an important new provision that the power to decrease tariff rates should be by 50 per cent from the rates in effect at the beginning of this year, rather than, as heretofore, from the rates in effect in 1934. I strongly favor the renewal of the Act with this all-important provision. Following its adoption, we should discuss the possibilities of Reciprocal Trade Agreements with England and in this connection explore particularly her attitude toward the most favored nation clause. The fact has been emphasized in British comment on Bretton Woods that that Agreement binds England only to renounce exchange restrictions, after five years, and says nothing about bilateral trade agreements. The implication is that agreement on commercial policy will be a far more serious matter. One suggestion frequently made is that before entering into agreements about trade England would want to have more assurance about our full employment policy; and Resolution VII of the Bretton Woods Agreements, calling for coöperation on internal full employment policies, has been much emphasized as a necessary preliminary to agreements on trade. Nothing would be more futile than to sign the

Bretton Woods Agreement looking toward the eventual elimination of exchange restrictions while leaving the door open to the accomplishment of the same purposes through quotas and other forms of trade restrictions. Clarification of Britain's own problem and of what we can do to help solve it should go far toward providing the conditions under which we can agree to relax both currency and trade restrictions.

As to the Bank, there are two functions which it could perform in the transition period, in addition to the making or guaranteeing of loans for specific projects of reconstruction or development. In his testimony before the House Committee, Dr. White suggested that it might be necessary for the Fund to make loans running up to eight years. This clearly contemplates something more than merely evening up the short-term fluctuations in the balances of payments of the member countries. I agree that there will be need for longer-term loans which cannot be stated in the form of specific projects and whose general purpose would be to rehabilitate countries and restore their powers of production and of export to the point where the countries would be in proper condition for engaging in the shorter-term operations contemplated by the Fund.<sup>5</sup> For such a purpose the Bank would be a much more suitable instrument than the Fund. It is on these grounds that this kind of amendment of the Bank Agreement has been suggested by the American Bankers Association and the Committee for Economic Development. For the reasons I have given earlier, I would postpone adoption of the Fund to the end of the transition period and rely for exchange stability in the interval upon exchange control, the Bank, newly mined gold, and the \$20 billion of gold and dollar balances which are now owned by foreign countries and are fairly widely distributed round the world.

The second function that the Bank might well perform during this interval is to serve as a center of consultation and coöperation on exchange rates. This is a point that needs to be emphasized because in the minds of some advocates of the Fund its value lies not so much in actual credit operations as in the fact that it would be an agency of coöperation on exchange rates and on other monetary matters. I can see no reason why, until operations by the Fund are actually begun, this function could not be performed equally well by the Bank. The fact that the Bank would not be subject to a set of monetary principles, such as are provided in the Fund Agreement, would in the circumstances be an advantage rather than a disadvantage. It would mean, as I suggested earlier, proceeding from case to case on the merits and would avoid the danger of a descent into legalism.

<sup>5</sup> Perhaps the best analogy is with the "League Loans" after the last war.

## VI

There remains the question whether we have any longer any freedom to discuss the Bretton Woods Agreements on their individual merits, or must make an all-or-nothing decision here and now. There are many who feel that the fact that, in what we hope will be a series of major political and economic steps toward post-war international coöperation, the Bretton Woods Agreements are the first to reach the stage of legislative decision gives them a significance that goes beyond their own intrinsic merits or importance. Bretton Woods is the key to San Francisco; Bretton Woods is the first step away from economic warfare; the issue is isolationism *versus* Bretton Woods; a further conference on monetary plans must at all costs be avoided. These are some of the statements being made in support of prompt and complete acceptance.

I have some sympathy with this view but think it is exaggerated. We are embarking upon a great and difficult experiment, in a field in which up to now the record has been one of failure. We must not content ourselves with the forms of coöperation if there are honest grounds for doubting that they embrace the substance. The procedure I have suggested would, I believe, promote rather than impair international coöperation; it would hasten, rather than delay, the achievement, as distinct from the formulation, of our aims. The worst bargain we could make, but unfortunately as matters now stand perhaps the easiest, would be to adopt promptly the Bretton Woods Agreements *in toto* but be left with the discriminatory trade and exchange practices and without the bases for genuine coöperative efforts. The essential question is whether we should delay the Fund and in the interval find a solution of the British problem or whether we should adopt the Fund in the hope that we will understand clearly that a solution of that problem must be found, outside the Fund but by methods that are consistent with it. I am afraid, human nature being what it is, that if we leave the matter in the latter way we will not do the job. Our only hope of success is to face the problem squarely now.

## REMARKS BY THE CHAIRMAN

CHAIRMAN BURGESS: Dr. Williams, the audience shows its appreciation of that very subtle and careful analysis.

One of the important questions in this whole matter is who needs the money and how much, and how much is there to take care of all the needs? The next speaker will respond to that question. He is Vice-President of the National City Bank, my associate, Mr. George B. Roberts, who has given some special study to this problem. Mr. Roberts!

## INTERNATIONAL NEEDS FOR FUNDS AND AVAILABLE RESOURCES

GEORGE B. ROBERTS

Vice President, National City Bank of New York

THE question of international needs for funds and available resources, obviously, divides itself into two parts. Of these two parts, the more difficult is the question of needs. We know something about the available resources; not as much as we would like to know, but at least more than we know about the other side of the equation.

I am glad that the topic assigned to me is international needs rather than international wants. A good deal of the discussion going forward has seemed to be based on wants. But wants are infinite. The real question of importance is needs—and needs that come within the capacity of countries to satisfy through useful imports and to pay for when the time comes, also that come within the exporting capacity of the countries which are to deliver the goods.

Needs may be classified, I suggest, in three general categories: relief, reconstruction and stabilization. Although they are interrelated, each presents a different problem, and there should be clear distinction between them.

In a recent report on Bretton Woods by the Committee for Economic Development, the statement was made that "so far as possible, loans should be truly loans; currency transactions should be currency transactions; and gifts should be gifts." Under the heading of "Gifts" we come to relief as the first and most pressing problem. This is chiefly a matter of food, clothing, medical supplies, and some tools to help people get started—to harvest their first crop, for example. How much relief will be needed is difficult to say. The President's first report on UNRRA stated that liberated peoples will be able to produce over 90 per cent of the necessary food, clothing and other supplies. The estimate, however, does not include enemy countries, and Germany in particular, whose capacity to produce goods by the time the military campaign is over will be drastically reduced.

The relief needs are spotty, because of differences in degree of devastation and differences in ability to pay. Countries lacking foreign exchange resources are chiefly in central Europe, the Balkans and Italy. As far as western Europe is concerned, while the needs are large in particular places

—in Holland, for example—these countries by and large have considerable resources with which to pay for supplies.

Even within individual countries we find great differences in relief needs because of transportation difficulties. There may be plenty of food in one section and dire shortage in another.

The United Nations have established UNRRA to handle relief, to which the United States has committed itself for \$1,350 million. Not all of UNRRA's funds, to be sure, have been appropriated, but more has been provided than it has been possible to use. The armies are taking care of relief up to a certain period in their areas of operation, and governments which have resources are also carrying part of the load. But the outcome has not been satisfactory, as we all know.

One lesson, it may be noted, which applies to the whole problem of reconstruction in foreign lands, is that the main trouble has not been lack of funds. The more serious obstacles have been difficulties of jurisdiction and transportation, including shipping. Also, there is the question of the ability of the supplying countries to accumulate the surpluses to ship.

Next, take the problem of reconstruction. Unquestionably, the need in devastated areas for outside help will be very great. I wonder, though, whether we are not getting an exaggerated impression as to its magnitude. We read in the press of great destruction where the fighting has taken place; we see the pictures in the newspapers. But I have been much interested in recent months in talks with business men who have come back from the other side, and from what I have read, to learn of the numerous cases where plant facilities are being turned back in good condition.

Plant destruction, like the relief needs, has varied greatly. Bombing and actual fighting wrought havoc in some localities, but large areas were untouched by war. While much industrial capacity has deteriorated from neglect and inadequate maintenance, the Germans had an interest in keeping up and improving plants which produced war materials. In many cases, because of the swift withdrawals, the Germans failed to carry out deliberate destruction, and in some instances left things as they were, expecting to return. In one case that I know of, the German official in charge refused to hand over keys, declaring, "You won't need them. We'll be back soon."

In France, the coal mines and industries in the north apparently suffered a good deal less severely than in the last war. I have been told by an American manufacturer with a large plant in Lille that the plant was turned back in as good condition as it was before the Germans came. Another large American company, which owns plants in Paris, in Belgium and in the Balkans, reported that its plants were not only in good shape but in

some cases better than before the German occupation. Some of the machinery which had been—by American standards—outmoded had been replaced by better equipment. It has been reported that some 95 per cent of French pre-war flour-milling capacity is intact, and that almost 40 per cent of French textile capacity is in shape to resume production.

In reconstruction, as in relief, the biggest problem facing France is the restoration of transportation. The Germans are said to have left only 10 per cent of locomotives in good condition. Through repair this number was raised to about 30 per cent, but since more than half of this third is used by the armed forces, very little is left for nonmilitary needs. Some four thousand bridges have been destroyed.

Passing to other countries, a parallel situation apparently exists in Belgium. The Liege industrial area has been reported badly shot up; but on the whole it would seem that Belgian rehabilitation ought to be rapid. In Holland, the situation is worse, with the flooding of large areas by sea water likely to delay for a long time the rehabilitation of agriculture. Parts of Luxemburg have suffered severely from being a battleground. While the liberated areas in Italy have sustained terrible destruction, the industrial north, which will play an important rôle in the rehabilitation of the country, is reported to have retained some 70 per cent of its 1943 efficiency.

We may think of Poland as a thoroughly devastated country, influenced by what we hear of Warsaw, Bialystok, and a number of other cities in the line of severe fighting. But damage has been reported to be light in Lodz, Poland's second largest city, and in various other important cities, especially in the south. Much new industrial capacity was developed in southern Poland on the eve of the war, which the Germans expanded with huge new synthetic gasoline and rubber plants and other chemical industries, expecting to keep this area permanently. Much of this new capacity seems to have escaped damage. Both Czechoslovakia and Austria gained industrially during the war through building of new plants by the Germans, and, unless current military movements bring destruction, both countries apparently will emerge with a greater industrial capacity than they had before the war.

In other words, let us not feel that we have a completely devastated continent to deal with.

England has already been discussed here this afternoon. Her problem is not one of destroyed industrial capacity. Her output of munitions and war materials demonstrates that. She does have a housing problem. The destruction of homes through bombing has been terrific. She has a difficult task of industrial reconversion and rationalization. And,

finally, she has the problem of her balance of payments that Dr. Williams has just outlined so clearly. Her need is not credit—she already owes too much when her blocked sterling balances are taken into account. Her need is for export markets to take her goods and enable her to buy food and raw materials to sustain her people and keep her industries going.

The worst thing, I suspect, we could do from the standpoint of British recovery would be to launch into a vast credit-financed export drive of the magnitude sometimes proposed as "necessary" to promote reconstruction abroad and full employment at home. Not only would it be bad for Britain, but it would probably be bad for us. It would greatly stimulate the inflationary forces, and we should doubtless lose much of the money in the end.

In summary, the first great problem of European recovery is, I should say, a psychological one. There is the question of the willingness to work and to maintain a disciplined social order. During the years of the occupation there was a patriotic incentive for not working, for playing the black market, for indulging in sabotage. Now the situation has completely changed, and there has to be a willingness to work and to work hard. It may not be easy to make this shift in the peoples' thinking and attitude.

The second great problem of reconstruction is the rehabilitation of transportation. Railroads must be put in order, equipment supplied, bridges rebuilt, shipping provided, and port facilities restored.

A third problem is the supplying of key tools to replace what has been destroyed or stolen or worn out where it was not to the advantage of the German war machine to keep the facilities in good order.

And, finally, it will be necessary to supply working capital in the form of raw materials to get the industries going again.

In thinking of these problems, I am reminded of the old saying in Poor Richard's Almanac: for want of a nail, the shoe was lost; for want of a shoe, the horse was lost; for want of a horse, the rider was lost; for want of the rider, the battle was lost; and for loss of the battle, a kingdom was lost. In other words, it is a case of dealing with key situations. If the job of reconstruction in the various countries can be approached in this way, the requirements for foreign credit will be greatly reduced.

Currency stabilization—the final phase of rehabilitation—should not take great sums if the problems of relief and reconstruction have been properly handled. Stabilization is not so much a matter of external credit as it is of internal attitudes and policies. It depends upon countries doing the things that are necessary in order to develop confidence.

We had considerable experience after the last war with stabilization loans, and they did not take much money, comparatively speaking. Great Britain stabilized in 1925 with a total stand-by credit of only \$300 million, none of which was ever used. The largest of the continental stabilization loans was the Dawes Plan loan to Germany of \$200 million, which, combined with the reconstitution of the German monetary system and Reichsbank, started Germany on her road to recovery.

What happened in France was particularly interesting. In 1924 an attempt was made to halt the decline of the franc with aid of a \$100 million credit in New York and a credit in London. There was a short-lived recovery, following which the franc was on the toboggan again. The recovery failed because of political dissension and an unwillingness to come to grips with the budget problem. The franc went down in spite of stabilization credits.

Compare this with what happened in 1926. In that year the franc was again slipping and looked to be going the way of the German mark. The country called Raymond Poincare, a strong man, to the premiership. What happened is described in a few sentences by Eleanor Lansing Dulles in her book *The Dollar, the Franc, and Inflation*:

From the moment it was known that Poincare was at the head of the government until the time when the bank and the treasury began to intervene to stabilize values, the franc rose with few interruptions from a low of approximately two cents to about four cents, at which point it came to rest. This rapid appreciation of value is mute testimony to the widespread belief that the French debt and budget could be handled by a strong man and clear-sighted government, without recourse to the printing press and large quantities of fiat money.... The most important thing was the clear expression of public will to the effect that further inflation should be avoided at all costs.

In 1926 there was no recourse to foreign credits, yet this time stabilization worked; the franc recovered to four cents and was held at that level until the final stabilization in 1928. With confidence established, capital flowed freely into France and there was no need for foreign loans—a significant illustration of the real source of currency stability.

So much for the "needs" side of the topic assigned me for discussion. What about the other side of the equation—available resources?

The world outside the United States holds today gold and dollar balances amounting to something like \$20 billion, a larger total than ever before. In the past three years alone, during which the experts have been discussing monetary stabilization plans, the total has increased by about \$7 billion, or more than the United States subscription called for by the two Bretton Woods institutions combined.

This huge increase in foreign liquid assets is a reflection largely of the enormous sums we have been spending abroad in connection with the war. It has given other countries substantial reserves which will aid them in stabilizing their currencies. It is true that these reserves are not evenly distributed. But they never have been. They are, however, better distributed, on the whole, than they were before the outbreak of this war or in 1929 before the onset of the depression.

Latin America holds over \$3 billion of gold and dollars; France has gold alone amounting to around \$1.75 billion; Sweden \$500 million; Belgium, \$700 million; Holland, \$500 million; Switzerland, \$1 billion. The fact is that the countries that are poor in gold and dollar exchange are comparatively few. Even though these funds are not evenly distributed, they can nevertheless go to work, for the countries that have them can make them available to others through mutual exchange agreements such as have been developing in Europe in recent months.

Of course, this \$20 billion of gold and dollars that other countries have will not be enough to meet all needs. They are not, however, the sum total of resources already available or proposed. First of all, there is UNRRA, which was discussed a moment ago. There is the proposed \$10 billion International Bank for Reconstruction and the \$8.8 billion International Monetary Fund, calling for subscription by the United States of close to \$6 billion. We are proposing also to increase the capital of the Export-Import Bank. Some countries, which have good credit and have maintained a reputation for keeping their affairs in order and for paying their debts, will undoubtedly be able to borrow in the open market. Holland has done so. Norway has arranged a credit here, to become effective immediately after the war.

Commercial banks will be willing, as always, to advance the usual commercial credits for financing the shipments of merchandise with a ready turnover. Finally, there are the potentialities in Lend-Lease, as exemplified in the recent deal with France, which covers a large amount of equipment usable after the war, such as locomotives, cars, construction equipment, etc.

All this indicates a sum total of available resources of such magnitude as to suggest that the real danger may be in providing too much rather than too little money. If we create buying power faster than we can supply the goods, we may repeat the experience after the last war when a credit-financed export boom played so large a part in the 1920 inflation and the crash that followed.

To play a constructive part in world recovery we must avoid repeating past mistakes. While recognizing our full responsibilities in world recon-

struction, we need a program that takes account of such practical considerations as (1) the available supply of goods and (2) the ability of other countries to meet their obligations through future exports of goods and services. Undoubtedly, the greatest contribution we can make is the maintenance of a sound and prosperous America, with all that means in the way of support to the world economy through the enormous buying power of our 139 million people.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN BURGESS: Thank you, Mr. Roberts!

I have pleasure in introducing to the audience an old friend, a member of the Federal Reserve Board staff for many years, very closely associated with me in the work of the System. I think perhaps he deserves the title now of Dean of the Washington economists and statisticians. Would you accept that, Dr. Goldenweiser? At any rate, he is a man who always illuminates every subject that he discusses. Dr. Goldenweiser, economist of the Federal Reserve System, will speak on a "New Monetary Standard". Dr. Goldenweiser!

## NEW MONETARY STANDARD

E. A. GOLDENWEISER

Economist, Federal Reserve System

**E**STABLISHMENT and maintenance of a monetary standard are governmental functions. It is the government that determines the price that it will pay in currency for gold or silver, or for both, and it is the government that decides what procedure to follow in maintaining the value of the currency, and particularly whether to make the monetary metal freely available to all bidders for foreign use or, for that matter, for domestic use. If the government decides not to have a metallic standard, it still must decide on the value of its currency in relation to other currencies and whether to have it fluctuate in response to monetary conditions or maintain its value by various measures.

While monetary standard policy is determined by the government, it is the volume and direction of trade and investment that in the end determine what measures the government must take to maintain its monetary policy. If a country's nationals purchase a great many commodities abroad and do not export an equivalent amount, the country as a whole is faced with a deficit in its balance of payments and it is the government that must find means of meeting the deficit. While private operations in the international field have to be within the framework of policy established by the government, a country's balance of payments is determined in the last analysis by actions of numerous individuals and their activities in trade and finance. It is an intimate interrelationship in which the government sets the rules and private enterprise carries on the business.

### *Character of the Gold Standard*

A familiar example of this procedure is the gold standard. When it is in full operation the government not only maintains a fixed value for gold in terms of currency and agrees to buy and sell it at that price and not to interfere with its international movements, but also undertakes to take measures that make this policy feasible. The gold standard is not automatic, as is often stated, because the government, after having decided on a fixed price and the freedom of movement of gold, must through the central bank or otherwise attempt to regulate the movements of funds across the border in such a way as to prevent one-way movements that would make the continuance of the policy impracticable.

There are three conditions that are essential to the maintenance of the gold standard: (1) the balance of payments on current and capital account must be fairly close; (2) in order to bring this about the people must have confidence in the solvency of their own country and the soundness of its currency; and (3) there must be competent management.

The gold standard worked in the latter part of the nineteenth and the early part of the twentieth century when these three conditions were present, when the world economy was generally expanding, and changes in the character and direction of trade were gradual. In that period there was a fairly even balance of payments on the basis of trade in commodities and services and international movements of capital. The people took it for granted that government policy would continue to be to buy and sell gold freely and not to interfere with its international movements. The standard was managed principally by England, then the unquestioned leader in international finance. It was managed very competently and with far-sighted understanding of the ways of world trade and of the homing instinct of money. When gold flowed out of the country, the bank rate was increased and funds were attracted once more to England. On the other hand, if there was too much gold coming, the rates were reduced and mobile funds began to flow out of England and to draw gold out. It is apparent, therefore, that the functioning of the gold standard was dependent on the effectiveness of relative levels of interest rates in moving capital in and out of a country. Such a condition was based on confidence by the people that their principal was safe and their consequent desire to earn as much as possible in current income from the principal. When concern was largely transferred from earnings to safety of the principal, and funds began to move from high-interest countries to low-interest countries, a fundamental condition for the effective functioning of the gold standard disappeared and the standard itself was bound to break down, as it did in the nineteen-thirties. If water begins to flow uphill, a dam no longer can serve its purpose.

Under the gold standard each country retains complete freedom as to both the price and procedure to be followed in relation to gold. It is true that a convention grew up under which changes in the price and procedure about gold were undertaken reluctantly and only under emergency conditions. Serious trouble was caused to England by returning to gold at too high a price in 1925, and France suffered severely from clinging to its parity and to the free movement of gold in the early thirties. But no country was under obligation to consult another country if it chose to go off the gold standard or to change the price of gold in terms of its currency. So long as conditions permitted, the gold standard functioned multilaterally, to be sure, but this was entirely voluntary on the part of different countries and gave way under stress of adversity.

The aura of sanctity which surrounded gold standard practices had its origin and its main support in the creditor groups in creditor countries. The gold standard was a creditors' standard. It assured repayment on any foreign sale or foreign investment in a value that would be no less than that received when the contract was undertaken. For that reason the creditor group was prepared to subject the country to deflation with falling prices and growing unemployment rather than sanction a change in the established foreign rate of its currency.

### *The Breaking Up of the Gold Standard*

All of this machinery ceased to be practicable after the first World War because the balances of payment were badly disrupted. When one country after another was forced off gold, a return to the standard became practically impossible because elements in the population that were not in the creditor group learned by experience that they were the victims of a rigid exchange rate. These elements of the population, including producers and workers, became much more conscious of their interest in the exchange rate and also of their own political importance. One reason that the gold standard in its pristine form is no longer possible is that we no longer have large creditor nations dominated by creditor groups. The great creditor nation at the present time is the United States; but by and large the United States does not know that it is a creditor and just what that implies. It does not have the same degree of dependence on foreign trade as England had, and it never has been dominated by creditor groups. Whenever economic conditions in this country are unsatisfactory there are powerful groups that try to change the value of money. Whether it is as silver advocates, or as greenback advocates, or as advocates of large-scale Federal Reserve operations, the debtor groups always become both vocal and influential whenever this country is suffering from a depression. The American people are not willing to be crucified on a cross of gold. For this reason, among others, the United States can hardly be expected to replace England as a staunch supporter of the gold standard. We lack the background of all-important international transactions to make sacrifices rather than to change the exchange value of our currency. We are only fair weather friends of the standard and are apt to abandon it in adversity.

One characteristic of the gold standard is that it does not operate equally as between small countries and large countries. In practice a small country which is more affected by conditions abroad than it can influence them in return is much freer to change the value of its currency or to interfere with the free movement of gold than is a large country. Belgium, for

example, was able to reduce its exchange rate and thereby stop a deflationary cycle without starting a series of world developments that would work to the disadvantage of all. Its action did not have repercussions throughout the world because its share of world trade was not sufficiently large. A great country which may appear to be in command of the situation is much less free to take corrective measures under the gold standard because its actions let loose a legion of destructive forces and retaliatory measures, which in the end lead to frustration. When England went off gold in 1931, as she could not help doing, her action was a major factor in the series of developments which brought the world into a highly disorganized condition by the time of the outbreak of the present war. Free exchanges and free movements of gold no longer existed. Tariff barriers had been intensified, and numerous restrictive regulations about exchange and trade had been put into effect, to say nothing of bilateral agreements, multiple currencies, and other practices that interfered with the flow of trade across borders.

### *Need for a New Standard*

With the main conditions that are necessary for the maintenance of the gold standard no longer in existence it becomes clear that some other mechanism must be devised for the post-war period. This mechanism must combine maximum exchange stability, consistent with national and world welfare, and sufficient flexibility to protect the economies from the kind of deflations that occurred periodically under the gold standard.

It is to fulfilling this task that the International Monetary Fund is addressed. It establishes a machinery for fixing and maintaining exchange rates. It provides for undertakings by member countries to refrain from practices that are disruptive of world trade. It provides a pool of funds to help countries under strain to maintain their rates without deflation. It is intended to meet temporary deficits, so that countries may have time, without adopting restrictive measures, to undertake readjustments in their economies. The Fund does not propose and would not have the power to solve fundamental economic problems of member countries. These have to be solved through domestic policies, and, in the international field, their solution can be assisted by such agencies as relief organizations, the International Bank, and commercial policy.

### *Multilateral Standard*

The proposed Monetary Fund should be viewed not primarily as a lending institution but precisely as a new monetary standard. In fact it is the first truly multilateral standard. Under it countries undertake to refrain from disruptive currency practices. They agree among them-

selves about the rates with which to start. They also agree not to make changes in these rates except to a strictly limited degree without multilateral consent, and they put at the disposal of members a mutual aid fund to which all contribute. It comes nearer to representing a truly international standard than any standard that has previously been in existence. Perhaps "multilateral standard" or more simply "mutual standard" might be adopted as the name for the new monetary standard.

A point over which controversy rages on both sides of the Atlantic and across the ocean is the extent to which the proposed International Monetary Fund would reintroduce the rigidities of the gold standard. Does it free a country entirely from the necessity of considering the effect of domestic policies on the exchange rate? Or does it make it obligatory once more for countries to undertake painful domestic adjustments whenever they become necessary to protect the rate of exchange? The answer is that the proposal does neither. It marks a clear break from the extreme sanctity of the exchange rate, to the preservation of which all other considerations must be subordinated, but it does not make it possible for a country to pursue a reckless policy in the assurance that the exchange rate will be adjusted to any level of costs. A proper interpretation of the plan is that it expects member countries to make every reasonable effort so to conduct their domestic economic and fiscal affairs as to enable them to compete in world markets with exchanges at levels agreed to by the Fund, but that, on the other hand, it also provides machinery for orderly changes in exchange rates, if established rates make it impossible to pursue essential national policies without upsetting the equilibrium of the exchanges. These phrases are necessarily vague, but they indicate the lines along which future policy would develop if the Fund were in successful operation. The precise meaning of these terms will emerge after the Fund will have been in operation for some time. With good will and good faith on the part of the participants, the problem, admittedly a hard one, would not be insoluble. It should be recognized that a country's ability to compete in world markets and maintain economic standards at home depends in the final analysis on such matters as efficiency, productivity and natural resources. Dependence on easy devaluations by high-cost countries in their competition with low-cost countries results only in a series of competitive devaluations. It is such practices that the Monetary Fund is set up to prevent; in the long run they profit no one.

While a belief that all can be made well for a country over the long run by manipulating the exchange rate is an echo of the faith in money magic, a belief in the sanctity of a rigid exchange rate to be maintained at any cost is also a dangerous fetish.

*Criticisms*

Establishment of the International Monetary Fund, like any proposed innovation, has been subjected to a great deal of criticism. The Fund proposal has been exposed to criticism much longer than most proposals. It went through a long period of gestation with periodic publication of results which gave an opportunity to anyone interested in the subject to send in criticisms and suggestions. Innumerable conferences were held—some with groups of foreign countries, some with individual foreign countries, and some with various interested persons in this country. It is hard, therefore, to see any foundation for the criticism that the Fund was sprung ready-made on a startled world. It was the product of an evolution which took place largely in the public eye. Changes made in the proposal are the result of open-minded exploration of the subject in the light of all of the criticisms and suggestions that were received.

Some of the criticisms made of the Fund may have technical or logical merit, for it is not perfect, but they are magnified completely out of focus. In many cases the Fund is being criticized because conditions that would arise in any event are erroneously attributed to the Fund rather than being recognized as difficulties that the world will have to encounter with or without the Fund.

*Creditors' Viewpoint*

There is one criticism, or one fundamental point, that requires discussion before this audience. It is the point which runs through all of the dissenting opinions that have been made public. It has to do with the fact that, under the Fund arrangement, countries will be assigned quotas that have been determined in accordance with various factors of resources and requirements, and the ability of the different countries to draw on the Fund will be given them as a matter of right, provided they need the foreign exchange for purposes consistent with the objectives of the Fund and provided they in general abide by the undertakings involved in participation in the Fund. The critics do not like this arrangement because it places on the Fund the burden of proof for stopping a country from drawing on it rather than placing the burden of proof on a country to show good cause why it should be permitted to draw on the Fund. The critics fear that the Fund will encourage extravagant behavior by participants and that it may ultimately do more harm than good. To them the proper procedure is for a country which needs exchange, even temporarily, to be offered an opportunity to present its case to a group which will be in a position to pass upon its credit standing and its good intentions and to grant it such drawing power and on such conditions as in the group's judgment will be good for the country as well as for the creditors.

It is on this basis that various groups have proposed that the Fund as such be disapproved and that an incidental department be established in the proposed International Bank for the purpose of making stabilization loans when, if, as, and in a manner that the Bank's directors may approve.

This opposition by the bankers to the Bretton Woods proposals should be viewed in the light of their background and experience. By training and viewpoint they look at matters of this sort as creditors and to them the rules for debtor-creditor relations are the principal—almost the sole—standards for measuring financial arrangements. Also they are trained to be conservative and to look to the past for guidance, no matter how little there may be in the past that would make one wish for its repetition. A creditors' ideal for the Fund would be a small fund, because that would work toward conservatism, and a fund to which a prospective borrower would come, hat in hand, presenting all his needs, explaining his behavior, submitting to whatever conditions may be imposed upon him, and agreeing to abide by rules to be made for him by the creditor. From a creditor point of view this is the only sound arrangement. However, it entirely misses the point of the new proposal. What is proposed is not primarily a lending institution, but a new monetary standard supported by a common pool of resources. It is hoped that this will provide as much stability as is consistent with the maintenance of prosperity and at the same time offer as much flexibility as may be necessary for the same purpose. The intention is to restore confidence to various countries in their ability to make broad plans for the future, with the assurance that they can increase their international monetary reserves by recourse to the Fund whenever they have legitimate need to do so. They would not merely be told, as the bankers would tell them, that if they are up against it they may be bailed out of their difficulties by a more or less sympathetic group on more or less tolerable conditions. What they are to be told is that they are part of an international agreement by which all countries will be given an equal opportunity to obtain assistance from a common Fund to mutual advantage. This and this alone will give them the assurance that they need to face the great difficulties which are bound to develop in the post-war world.

It is partly for this reason that the Fund must be relatively large; it must suffice to convince a great many countries that there will be enough to see them through. The funds must be available for use on conditions known in advance, because only in that way can countries be free to proceed to make their plans for reconstruction of world trade. If the Fund is not geared to accomplish this purpose, it might as well not be started, because a country with good credit standing can always find a lender, provided it is willing to meet the charges and conditions imposed upon it. It should be kept in mind that what we are looking for is not a creditors' paradise, but a functioning world economy.

No country could accept restrictions on its freedom to make unilateral or bilateral arrangements or to use various controls and multiple currencies, unless it was given assurance that there would be a group of its peers to stand by it if economic conditions should be temporarily so adverse as to make it impossible for it to cope with them alone. What would happen under the bankers' proposal would be at best a very slow and halting recovery with continued discouragement and there would be grave danger of an ultimate breakdown and chaos.

There is a direct line of descent from the attitude of the bankers toward the Federal Reserve Act when it was being proposed to their attitude toward the International Monetary Fund. Now as then they express sympathy for the objective, but think the methods too complicated and the management too inexperienced and too political. There is, it must be added, no unanimity in the opposition of bankers to the Monetary Fund. Many individual bankers and banking groups have come to its support.

The bankers apparently would like to do for the Monetary Fund what they would have liked to do for the Federal Reserve System. They would like to swathe it in a layer of mild and considerate objections and then bury it under the sod. This attitude is an occupational disease and it can be counted upon to appear whenever anything is proposed that does not conform to the narrow horizon of the creditors' outlook. If the world is to move forward toward institutions that would help to develop world resources to the benefit of all countries and all groups of people, it must disregard the advice offered with all sincerity and with deep apprehension by professional creditors and must go ahead with proposals that will lead to the establishment of a new multilateral monetary standard. It is only in that direction that there is hope for progress toward world-wide prosperity and for the survival of free enterprise in a peaceful world.

## REMARKS BY THE CHAIRMAN

CHAIRMAN BURGESS: Thank you, Dr. Goldenweiser!

The Chair is sorely tempted to say something about the Federal Reserve System. [Laughter and applause]

I have been looking over that history a little and I find that the American Bankers Association has no resolution on its books during that period, opposing the Federal Reserve System. It has a resolution heartily approving the Aldrich plan. You may remember the history. Toward the close of the last century, a group started to propose a central bank for the United States. I think that was 1898 or thereabouts, after the panic of 1893, and bankers were fairly prominent in that movement. One New York banker, Paul Warburg, went up and down the country advocating the establishment of a central bank.

In 1908, after the brief financial panic, the Aldrich Monetary Commission was appointed and studied for some years the question of establishing a central bank in the country. The bankers took part in that study. The result of it was the Aldrich bill, which proposed a central bank for the United States. The American Bankers Association came out positively and completely in favor of that proposal and worked for it, before Congress.

The change of administration took place in 1913, as I remember, and a new banking committee was appointed. The American Bankers Association appointed a currency commission to study the matter, and they still favored the plan—similar to the Aldrich plan—that involved a central bank of the type of the Bank of England. They did not like the regional program proposed in the bill by Carter Glass and Senator Owen. They did not like the establishment of a Federal Reserve Board in Washington because they thought it would be political. So this commission, acting for the Association, never opposed the Reserve System, but it did urge a difference in the bill. As a result of their opposition to the form of the bill, they did get some important changes made in the legislation, including the establishment of the Federal Advisory Council and some other details that my memory does not bring back at the moment.

But when the bill was going through Congress, the American Bankers Association repeatedly approved the principle of the legislation; and when it was passed, they adopted a resolution expressing great appreciation to all those who had labored for it. So I do not think, as a matter of fact, that history bears out the accusation that the American Bankers Association opposed the Federal Reserve System and wanted to bury it. They genuinely wanted a different form than was adopted.

I think bankers were wrong in opposing a Federal Reserve Board in Washington. I think that was inevitable; for a central bank for this country, without political guidance or guidance of a board that is at least in some measure responsible to the political authorities, was unrealistic. I think if there had been a different admin-

istration, we would have had a measure probably similar to the Aldrich bill which the American Bankers Association endorsed. But I do not honestly think it is fair to say that the bankers desired to sink the whole thing.

There are other chapters sometimes cited to illustrate the "backwardness" of bankers that Dr. Goldenweiser did not cite. There is the question of the Federal Deposit Insurance Corporation, which the bankers opposed. They did, and so did Franklin D. Roosevelt, Carter Glass, and the Secretary of the Treasury, William Woodin. I happened to be there at that time, doing some work in the Treasury, so I know what their position was. The bill was finally forced by the House Committee on Banking and Currency under the chairmanship of Mr. Steagall, who wanted it, against the whole galaxy of other people who did not think it was desirable, having in mind the wreckage of nine or ten states which had had deposit insurance. There again, I think the bankers were wrong but they were in very good company. [Laughter] How wrong they were remains to be seen over a period of history.

[In reply to a question concerning the principal objections to the Bretton Woods Monetary Fund which have been set forth by the Bankers Association, Chairman Burgess continued.]

Well, I will try to state them in just a few minutes. First, we do not want to make the same mistake that we did after the last war. We had at that time an inflation, in 1919 and 1920, which carried the price of wheat up to \$3.50 and then dropped it to a dollar, or less than a dollar. It sold for 22 cents on the farm in Kansas. That was due to the fact that we had too much money. As you all know, from economic history, there can be too much money as well as too little.

We went from the war into post-war inflation, which is one of the cruelest things that was ever done to human beings. Inflation is a form of disaster that is almost without parallel. It is always, in human history, followed by distress and misery. That is primarily the thing that the bankers are thinking about. We do not want to do that again.

We are very much afraid that after this war, with the desire for expansion that is quite legitimate, we may make exactly the same mistake that we made in 1919 and 1920 and 1921, that we made in the late twenties, when, unfortunately, a great many bad loans were made over the world. Many of them turned sour, and, as they turned sour, we ran away. That was the worst thing that happened to the world over that period, as I study it; that Uncle Sam was first Uncle Sucker—perhaps that isn't the right expression; let's say he was Uncle Spender—and then when he found that he had spent too freely, he turned his back and was Uncle Shylock.

Now, we do not want to do that again, and we are very much afraid that, with the new device of the Monetary Fund, the limitations on it are not sufficient to prevent our making, with that Fund, through government auspices, exactly the same mistake that we made after the last war and in the late twenties. We think the Fund needs to be very carefully safeguarded to see that it is used where necessary, for the things that are necessary, and is not used to finance inflation by irresponsible governments, which do exist in some parts of the world. Governments can be irresponsible just the same as individuals, and those who do not need the money can spend too freely.

We thought we had all the food in the world, but we have discovered that we have not. There are already in the hands of these foreigners twenty billion dollars of gold and dollars ready to be spent after the war. Our own people, fortunately, have made very large savings as a result of the war—over a hundred billion dollars of savings. After the war, much of that will be spent against a limited amount of goods. It is the problem of inflation that the Director of Economic Stabilization has been working on. We bankers have been working at it by trying to sell bonds, by trying to persuade people to save rather than spend their money.

The thing is going to come to an acute head after the war, in the first few years after the war. We do not want to spend foolishly. It is the most critical problem that we face in the economics of this country today, in my judgment. All the bankers are saying here is, "Let's watch our step, let's not be Uncle Spender because that will lead us to be Uncle Shylock by and by. Let's make sure that what we do, we do wisely and well." That is the first thing that concerns us.

The second thing that concerns us is that we shall set up in these institutions a well-managed, careful, workable plan. Now, we are lenders. We have had some experience in lending money. Bankers have lent money over a good many centuries. It involves techniques, it involves methods, that people who have not loaned money may not appreciate. The bankers are lending your money. It is not their own money. The only way they can preserve the money that you put in the bank is by lending it carefully. We just believe that when the United States and other governments become lenders of money, it is your money they are lending and it should be loaned very carefully.

We think it can be done for half the cost. The present cost of these plans, if it is handled carefully, will be very little. If it is not handled carefully, the money then has to be paid eventually by the American taxpayer. The Bretton Woods proposals, as they now stand, involve six billion dollars, less than a month of war spending, but two hundred dollars for every family in the United States. If that money is carelessly spent, it is the families of the United States who will pay for it. We think if it is handled carefully, as people of experience in lending money think it could be handled, a commitment of one hundred dollars for each family could do the job.

We think that the set-up of having two institutions is a mistake. We base that on human nature. We remember that in Washington there have been instances where two organizations have been set up to do similar work—Mr. Wallace and Mr. Jones, for example, and some others. It does not work very well. Each one of these institutions calls for twelve directors, twelve alternate directors and forty-four governors. That is sixty-eight people. Double that, and it is one hundred and thirty-six people, milling around in two institutions. We think that number could be cut in half and the whole job could be done under one roof more effectively.

There are two things. We do not want to see the money of the people of the United States squandered or misused, or used to finance an inflation. We want it used wisely and carefully. That is the sole objective of the bankers' suggestions. We do not believe that the fact that some experts have worked on this thing is necessarily final.

The procedure with respect to Bretton Woods was very different from the procedure with respect to Dumbarton Oaks. At Dumbarton Oaks, they had a conference of experts a year ago. They gave us nine months for public discussion. They are having another meeting, another conference, in San Francisco. That may not be the last. There is opportunity for the public to discuss it.

Now, there was some discussion before April last, when the Bretton Woods plan was brought out as the report of experts, but relatively little, and then the plan was adopted and we were asked to accept it, one hundred per cent; that is, there was one conference, and then we were asked to accept the thing without further public discussion or chance for amendment. In Dumbarton Oaks, there was one conference, long public discussion, a chance for every reaction, and then another conference. I do not think that a second conference in Bretton Woods would be serious. But I do not really think it is necessary. I think that changes could be made in these plans and that the thing could be approached a little more gradually and worked out perhaps without another conference, but if there were one, I would not think that was a terrible calamity, in view of the great complexity of the plans and the need for doing a good job.

## PART III

### WORLD ORGANIZATION — ECONOMIC, POLITICAL AND SOCIAL

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#### INTRODUCTION \*

LEWIS W. DOUGLAS, *Presiding*

President of the Academy of Political Science

President of the Mutual Life Insurance Company of New York

**T**O your good fortune, it is not the responsibility of the chairman of this evening's proceedings to make any prolonged observations. It would be quite unfitting for him to do so. But he cannot refrain from thanking those who have given so generously of their time today and who will give tomorrow so generously of their energy and time to make this joint venture of the Academy of Political Science and the Carnegie Endowment for International Peace a successful and memorable occasion.

Flushed by the great successes of our combined armies, stretching over the past few months, we dare not forget those dark days of the past when all of Europe had fallen before the military might of a brutal enemy; when Britain, that little island in the North Sea, stood in solitary gallantry; when, inspired by a few in whom, through the wisdom of Providence, there had been concentrated the accumulated wisdom and courage of their ancestors for this greatest of the crises of the Western World, she held the hostile hordes at bay. We need to remember the way in which, alone, she held her island safe and in security, and retained control of the vital corners of the world, from which, in God's good time, there were to be launched those military undertakings that now, if we would only remain resolute and determined and unflinching, will bring victory within our grasp.

\* Opening remarks at the Third Session of the Semi-annual Meeting.

It is well for us to recall the part that Britain played. It is well for us to remember that to her we owe a debt which future generations will find it difficult to repay. It is well for us to remember that in saving herself, she gave us the time, when time was precious, and the opportunity to save ourselves [applause]; and in thus doing, and in this sense, she may properly be called the savior of western civilization. [Applause]

Later, when we had become a participant in this greatest of the ordeals of mankind, the pressure of our common danger gave birth to a more perfect union between us. One of its manifestations was the establishment of the Combined Chiefs of Staff.

In introducing Lieut. General Sir Gordon Macready, with his long history of achievement as a soldier and as a statesman, presently the Chief of the British Army Staff in Washington, may I express the hope that the more perfect union welded under the pressure of war will become still more perfect when the battle flags are furled, and that it will extend on into the future farther than the human eye can see. [Applause]

General Macready, may I have the pleasure and the distinction of introducing you to this audience?

[The audience arose and applauded.]

## THE PROVISION OF MILITARY FORCES FOR USE BY THE WORLD ORGANIZATION

LIEUT. GENERAL SIR GORDON N. MACREADY

Member of Combined Chiefs of Staff, United States and Great Britain

THE topic for discussion is stated on the program to be "World Organization—Economic, Political and Social"; the military aspect is not mentioned. And I confess that when I first heard of it I felt somewhat doubtful as to whether a mere soldier should intrude into such fields of thought and study. On second thoughts, however, I came to the conclusion that I would not be straying outside the terms of reference if I said a few words on what is of most interest to me professionally, namely, the provision of military forces for use by the World Organization.

My reasons for this conclusion are: First, it cannot be denied that armed force has always been a very definite *political asset*. Possibly many of our mistakes in the international field in the past have been owing to the fact that we have attempted to pursue policies not backed with adequate force. Secondly, no one will deny that armed forces are sometimes regarded, in peacetime at any rate, as an *economic encumbrance*; and, lastly, the military have often, in the past, been considered (quite wrongly, of course) as somewhat of a *social menace*. So much so was this the view in England in the seventeenth century that even to this day the Army exists for only a year at a time. In theory, if the new army appropriation is not voted before the beginning of a new financial year, the Army ceases to exist. In passing, I might say that, for some reason or other, our Navy is not placed in this unfortunate predicament. I cannot believe it is because sailors are supposed to be better behaved than soldiers.

I should like at this point to emphasize that in the remarks that follow I am giving you my own purely personal views. Nothing that I say should be taken as necessarily representing the official British view.

I do not think I need dwell for long on the question of the necessity for the World Organization to be provided with teeth.

The League of Nations, I submit, failed to prevent the various acts of aggression leading to the present conflict because the world had not yet reached a sufficiently advanced stage of international coöperation, because several member states supported it only so long as it suited their own book,

because one of the greatest and most civilized nations in the world was not a member, but, above all, because there was no big stick with which to threaten or beat an aggressor.

I often wonder whether in our civilized countries the ordinary man in the street realizes the extent to which organized force is responsible for his personal safety and freedom from theft and violence.

Probably few of you have seen a civilized country possessing no police forces at all. Shortly after the last war I was sent to Poland as head of a mission to assist in organizing a national police force. At that time, apart from a few hastily gathered individuals in the various big cities whose duty it was to try to arrest criminals after they had committed their crimes, there was virtually no police organization at all, owing to the fact that the whole of the pre-war Russian and German police forces had been removed. There were no police patrols circulating either in the town or in the country. It was a criminal's paradise. Within a year several efficient police schools were functioning; a total force of nearly 30,000 country and town police had been formed; continuous beats, or patrols, were carried out in the towns and in the country; and at the end of twelve months crime had been reduced by about 85 per cent. The deterrent of visible force had had its effect.

In the world as it is we must expect that for many years there will be nations, just as there are individuals, who will be deterred from criminal acts only when they know that they are likely to be caught and punished.

If you concede my point that well-organized force capable of immediate application is a necessity for any successful world organization, the next point is how are we going to provide it?

Many people have suggested that the right answer is an international police force, consisting of all three services—or even an international air force alone—belonging to and controlled solely by the World Organization.

An international force has, of course, on the face of it, many attractions, but there has, I think, been a good deal of loose talk on the subject. In the first place, what do we really mean by an international police force? I suggest what we mean is a force composed of personnel of many nations, recruited, organized, administered, trained and equipped by the international authority, its members being mercenaries serving that authority. I use the word "mercenary" in no derogatory sense. The force under the international authority would, in normal times, have no specific job, but it would be expected to act whenever a situation arose which, in the opinion of the authority, required the use of force in the interests of international security. Incidentally, this would mean that a member state

would have to surrender its national sovereignty at least to the extent of permitting the international authority to carry out in its territory any tasks necessary for the raising, training and maintenance of the international police force.

Recruiting would, of course, have to be on a voluntary basis, as I assume that no country would allow the international authority to possess powers of compulsory enrollment in its territory. As regards conditions of service, apart from the question of pay (which would probably have to be very high to be sufficiently attractive), there would be questions of accommodations for the troops and for married families. Scales and types of rations would probably have to be uniform for administrative reasons, and this might not be agreeable to men of different nationalities. Differences in such conditions between parts of the international force stationed in a country and the latter's own national forces would also probably give rise to dissatisfaction.

Even if recruited from the best elements, and I suggest the chances are that the force would probably consist more of adventurers and soldiers of fortune than of the best elements in the average country, I am inclined to think that these mercenaries would not shine when opposed to highly trained national forces. Men will fight to the end only when morale is at the highest. Morale depends on discipline, *esprit de corps* and belief in a cause. Troops will not give of their best on behalf of some abstract principle, or for a cause with which many of them may not be in sympathy when the time comes. Only those few among them who could feel that they were fighting for their own hearths and homes would fight well. The rest, whose motive would be only a vague international altruism, would probably be indifferent soldiers.

We must remember that one of the main incentives to the mercenaries and soldiers of fortune of the past was loot, and, though we live in a period that has seen some of the most widespread international looting in history, loot for the individual is ruled out of court. In Germany there have, of course, been exceptions, such as Goering, who has considerably enriched his art collection.

Turning now to the question of armament and equipment, ideally, if the international force is to be effective and to prevent the conflagration attaining such a size that national forces must become involved, its equipment should be at least as good as, if not better than, that of the average national force.

It might, of course, be possible in theory to agree to give the international force a monopoly of certain types of material such as tanks, heavy artillery and four-engined bombers, but that, even if it could be main-

tained, would not be a sufficient safeguard. Some scientific development in a particular country might make it possible for an aggressor to obtain an advantage which would offset the superiority of armament thus promised to the international force. To prevent this it would be necessary to allow research and development and manufacture to be carried on only under the international authority. Apart from the obvious difficulties in such an arrangement, the results of research and development could hardly be kept secret from any member of the international authority, which we must assume might include the potential aggressor.

The fact is that modern war involves the total resources of a country, and if an international force is to be really effective it must possess all the resources of a highly industrialized, civilized community. This, I suggest, is hardly practicable, and we are forced to the conclusion that the international force, besides not being able to recruit the best men, would not be given the best and latest material by the various members of the Organization, and, in any case, it would still be entirely dependent on the coöperation and good will of the various member states for its maintenance, its movement and its financing. With regard to the latter point, I am inclined to think that appropriation of funds for an international organization will always prove more difficult than for national purposes.

I am afraid my own conclusion is that an international force which could be of real value for assisting the World Organization to prevent aggression is hardly within the realm of practical politics, at any rate until we all agree to some kind of world superstate possessing some jurisdiction and administrative powers over all countries of the world.

If I am correct in my conclusion, this will be a disappointment to many people. Not long ago I heard an intelligent and otherwise responsible person say that it would be much easier politically to provide men and material for an international force than to agree to allot part of the national forces to the World Organization, since in the former case military action by the international force need not cause political difficulty. The various countries concerned could still maintain that they had not gone to war with the aggressor country and that it was only the International Organization that had done so. I suggest, ladies and gentlemen, that if the World Organization is to succeed it must have teeth which are strong and vigorous and are nourished by the whole of the body politic of the world. You will, I think, agree that the view I have just mentioned is a rather disturbing sign of what might be described as prenatal decay.

### The Alternative

If an international force does not appear to be a practicable possibility at present, this does not mean that we should all merely rely on our separate and uncoördinated armies, navies and air forces to go to the rescue of the World Organization when a crisis arises.

I suggest that a possible alternative to an international force is that every state would agree to place at the disposal of the World Organization a quota of its national forces in such a state of readiness and in such numbers as the Council, on the advice of its military staff, considers necessary from time to time, and that the states concerned should also undertake to maintain these quotas in personnel and equipment, to provide all necessary facilities, such as bases, within their territory, and to move them as required by the Council to scenes of possible action.

In this way a certain small proportion of the national forces, without losing their identity or their *esprit de corps*, could be retained in a high state of efficiency for immediate employment without any considerable increase in budgetary expense to the country concerned. The weapons and the personnel of these forces could be expected to be the best that the country could provide; and to avoid staleness, rotation of the quota within the national forces would be possible.

There are, of course, many details connected with this suggestion which require working out. For example:

(1) What size forces would be required and which are the countries that should provide them?

My answer to the latter point, at any rate, is that the leading world Powers who have the most efficient war industry must expect to be saddled with the major part of the burden. The actual forces required will presumably be a matter for decision by the Council on the advice of its military staff.

(2) How are plans to be evolved to enable the extremely rapid action that must be taken in modern war?

As we have already seen, preventive action nowadays must be initiated almost before the aggressive action has been taken. This means that the information or intelligence at the disposal of the Council must be the best that could be provided. I will not attempt to suggest how this could be done, but for reasons already given I am inclined to think that each of us must in our own way provide ourselves with the best possible intelligence and then place it at the disposal of the World Organization. I am very doubtful whether a conglomerate international intelligence set-up would deliver the goods.

(3) In various areas or regions it would obviously be necessary for the different contingents held at the disposal of the Organization to train together periodically.

I see no particular difficulty in arranging this and, in fact, I think it might help to foster better international relations.

(4) The Council would, of course, have to select commanders and staffs for various alternative contingencies, and if these are to be able to act effectively they must be nominated and be fully acquainted with their tasks and with the forces at their disposal beforehand.

This should not be an insuperable task, but the Commander and his staff will require most careful selection. The Commander must clearly possess the highest military qualities: his political insight must be exceptional, and, so far as possible, he should be devoid of political bias or excessive nationalistic feeling. After seeing what General Eisenhower has done I see no reason to be pessimistic about this.

(5) Again, in order to get any military plan approved or any military action taken it will be most necessary for the *military staff of the Council* to be composed of distinguished officers of the various nations representing their respective chiefs of staffs, who are able to coöperate smoothly and effectively in an international atmosphere.

It is on this particular point that I feel by no means pessimistic. In fact, you have at this table two concrete reasons for optimism. General Marshall and Admiral King, both very outstanding leaders in their respective professions, have, I would venture to say, shown that they are equally great coöperators. If the Combined Chiefs of Staff organization has been able to stand the test of this war as effectively as it has, I see no reason to despair of an international military staff being able to work effectively.

I would, however, again like to emphasize that a well-organized world organization, provided with the most brilliant military staff and adequately trained forces, would not alone prevent another world disaster unless the nations and the peoples of the world sincerely intend to make the machine work and put their backs into the job.

The other day I came across an extract from a speech by Mr. Churchill which he made on 14th March 1938. He said:

What is there ridiculous about Collective Security? The only thing that is ridiculous about it is that we haven't got it. If a number of states were assembled round Great Britain and France in a solemn treaty for mutual defence against aggression, if they had the forces marshalled in what you may call a Grand Alliance, if they had their staff arrangements concerted, if all this rested, as it can honourably rest, upon the Covenant of the League of Nations; if that were sustained as it would be by the moral sense of the world, and if it were done in the year 1938, and believe me, it may be the last chance there may be of doing it, then I say that you might even now arrest this approaching war.

With few alterations and with a broadening of its base, this statement, I suggest, is applicable to the present day. If we do not set up a world

organization based on our full moral and material support, and do not give it teeth to make it effective, then I can see some of us in twenty years' time sitting again in this hotel at the close of another world war, once more discussing how to avoid such calamities. The main difference will be that there may be no roof on the hotel. The V-58, the latest version of the rocket bomb, will have seen to that.

[The audience arose and applauded.]

#### REMARKS BY THE CHAIRMAN

PRESIDENT DOUGLAS: General Macready, in behalf of the Academy, I thank you for presenting the questions which you have presented and suggesting the answers which you have suggested. It is far more difficult to make decisions than it is to do jobs.

Once upon a time, there was a farmer who was short of manpower. Curiously enough, somebody had escaped the vigilant eye of General Hershey and applied to this farmer for a job. The farmer put him to work in the field, hoeing, and the man performed his task well. He then put him to work to chop some wood and the man performed that task excellently. Then, the farmer put him down in the cellar to sort out apples. This fellow remained in the cellar for two or three days without putting in an appearance. The farmer went down to see what was going on and how far this man, who had really demonstrated his capacity as a laborer and as a performer of jobs, had gotten with his task of sorting apples. He found that he had not been getting on with it at all, so he said to him, "My good man, you have hoed the field and you have done it well; you have chopped wood and you have done that well. You have boasted of being a good laborer, a man who could undertake and do tasks. How is it that you have done so little here?"

"Well," said the man, "I am a good performer of tasks, but this last job that you have given me requires the making of decisions." [Laughter]

It is on these questions which you have presented, General Macready, that decisions must be made; and it is because the making of decisions is more difficult than the performance of a specific job that the framing of the peace will be more hazardous than the winning of the war.

We are living, all of us, in an age of miracles. One of them is the development of the United States Navy to its present overwhelming status. On the sea, in the air and on the land, it has grown with a speed beyond our fondest hopes. In a very brief span of time—measured by history, but a second—it has attained striking power of incalculable greatness. To no person should the credit for this achievement be extended in more unstinted fashion than to the Commander-in-Chief of the United States Fleet. [Applause]

Admiral King, you honor us by being here tonight; and I am honored by being able to introduce you to this audience.

[The audience arose and applauded.]

## THE ROLE OF SEA POWER IN INTERNATIONAL SECURITY

FLEET ADMIRAL ERNEST J. KING, U. S. N.

Commander-in-Chief, United States Fleet  
Chief of Naval Operations

I WISH to thank the Academy of Political Science for affording me this opportunity to speak. I propose to discuss the influence of certain phases of sea power as it has shaped some of the events of the war up to this time. I shall also touch upon the rôle sea power may play in our future national security.

For almost three and one-half years we have been fighting an intense global war. During these months of combat, American seamen have proved themselves the rightful inheritors of naval traditions almost forgotten. During this same period our fleet has been multiplied in spite of war's bitter attrition. By now, however, sufficient evidence has been accumulated to warrant our drawing a few observations and conclusions. They are more than this—they are lessons.

Although sea power contributed much in the founding of our Republic, although it fought to preserve the nation after its birth, the passage of time records that we neglected our birthright. Somewhere along the line we lost the pioneer's vision. Particularly during the latter decades of the nineteenth century and until recent years the American public thought of this nation primarily as a land Power. Several factors influenced that thought. Millions of our people lived inland—our territory was contiguous and it was located in a peaceful hemisphere.

But today, the United States is the leading maritime Power in the world. And events of this war have proved—if proof were needed—that where international affairs are concerned, sea power is of maximum significance.

Sea power means precisely what it implies: the power to gain and hold control of the sea. It does not mean ships—and ships alone. Neither does it mean planes—and planes alone. The term is collective, denoting the sum total of all those instruments by which control of the seas is gained and exercised.

Composed of seven essential elements, we may express sea power as an equation: sea power equals surface ships *plus* submarines *plus* aircraft *plus* merchant ships *plus* naval bases *plus* trained personnel *plus* the productive capacity to build, equip, operate and fight with them.

To be fully effective, sea power must have all of these seven vital elements. The omission of any one tends to upset the equation and renders sea power that much less efficient.

In the present war there have been several instances in which one or another of the belligerents failed to pay sufficient attention to all of the elements of sea power. By neglecting surface ships, submarines, aircraft, merchant ships, bases, trained personnel, or productive capacity, serious consequences were suffered.

Foremost in making such a costly blunder is Germany. The Germans, who have never been effectively sea-minded, launched their program of world conquest in 1939 without providing adequate means for projecting their massive land forces across intervening stretches of water. They placed their reliance upon the plane and the submarine. The submarine is intended, not so much as a means to gain control of the sea, but to deny its use to the enemy. German U-boats attacked the Allied life line to Britain, and the Battle of the Atlantic ensued. The result is well known to all.

Again, by placing their major confidence upon the airplane, the Nazis failed to thrust across the English Channel. Their planes wreaked havoc on British cities, but they could not occupy that defended land. The Germans massed tanks and infantry at the water's edge—and there they stopped. Their provisions for amphibious warfare, which we have since so highly developed, were inadequate. Our mastery of this kind of warfare and our control of the waters adjacent to Europe enabled Allied armies to do in 1944 what the Nazis were incapable of doing in 1940—cross the English Channel.

Japan too blundered. Perhaps the weakest link in her naval armor was the inability to protect her merchant marine. In their lightning offense of 1941-42, the Japanese sprawled their forces over an expanse greater than their merchant marine could effectively serve. Means were not available to them to prevent our submarines, and, later, our planes, from whittling down Japanese shipping. This deficiency was further accentuated by the inadequacy of trained personnel and shipbuilding facilities to replace these losses. Thus the Japanese found themselves incapable of exploiting their conquered empire; they had no way of linking it with their industrial centers on Honshu and the Asiatic mainland.

In pointing to the mistakes of our enemies, we must also examine our own shortcomings. An inadequate merchant marine was one of our pre-war weaknesses. After the last war, we dissipated our store of merchant shipping. We compounded the error by not maintaining our shipbuilding capacity. Consequently, at the outbreak of this war, we found it necessary to construct swiftly what has come to be a stupendous tonnage of cargo

ships. But so great was the demand and so heavy our shipping losses in the early days of the conflict that new construction could not keep pace with our needs.

For many anxious months, it was a nip-and-tuck affair trying to fulfill the shipping needs and at the same time attempting to meet the requirements for offensive and protective operations in both the Atlantic and Pacific.

As you know, the appetite of war is said to be all but insatiable. The demands of this war have almost continuously exceeded the supply. Always, from the first day of hostilities, there seemed to be highly desirable operations that might have been conducted had we but possessed a sufficient pool of supporting cargo vessels. Even with the unparalleled accomplishments of our cargo shipbuilding efforts, severe shortages have made it necessary from time to time to delay operations. We have paid the price in retarded progress.

Recalling the shipping difficulties encountered in this war, and contemplating the armada of bottoms and the expanse of shipyards we have built, we now face a vital question. How much shipping should be retained in fairness to ourselves? Shall we again risk the impact of total war without adequate shipping to deliver the tremendous quantity of materials needed by our forces and those of our allies? Shall we again permit our goods to be carried in foreign bottoms to the detriment of our own shipping needs in time of emergency? In the light of our foreign trade and our naval needs, what should we do? This will be one of the knottiest post-war problems—a problem in which the Navy is vitally interested.

But more than an adequate merchant marine, we must have bases. Of all the elements of sea power, the United States Navy suffered most at the war's outbreak from the lack of overseas bases. We lacked operating bases in the Alaskan area; had none in the Far East, except for isolated and inadequate Cavite; none in the Central Pacific, except Pearl Harbor; and only those recently acquired in the North and Central Atlantic outside of Cuba and continental United States. The bases we did possess were not equipped with the requisite guns and planes and men to stem the enemy's initial onslaughts.

I make this point because it is well to remember that the mere ownership of outlying bases means little, if these bases are not maintained and implemented by an appropriate fleet ready for action.

Up to the present, the Pacific war has been largely a battle for bases. Our primary efforts so far have been directed toward wresting from the enemy advance territory from which our naval and military forces can rain body blows upon the inner Japanese empire. At the war's termination we shall have bases serving our task forces in most areas of operations.

These atolls, these island harbors, will have been paid for by the sacrifice of American blood. They will have been scooped out of sand and rock, coral and volcanic ash, by a generation of Americans giving their service, their ingenuity, and their money.

Failure to maintain these bases essential for our defense raises the fundamental questions: How long can the United States afford to continue a cycle of fighting and building and winning and giving away—only to fight and build and win and give again? Rich as we are, we do not have the human or physical resources to dissipate our patrimony, generation after generation, in this manner.

The United States Navy now possesses a balanced fleet containing all the essential elements by which control of the seas can be attained and retained. How this concentration of power has been applied against the enemy—the actions of our fleets speak for themselves. But as forceful as they have been, there are several basic achievements worthy of mention, accomplishments that may not have received sufficient emphasis.

In all wars, the Navy's strategy and tactics have revolved around those weapon-bearers that hit hardest and farthest. Our fleet's adaptation of the airplane to sea warfare may be rated as one of the major military achievements of our age. The air arm of the United States Navy is the envy of other navies throughout the world. By utilizing air, our fleet has been able to make long advances, instead of having doggedly to batter the enemy mile by mile. Without our highly developed and closely integrated air arm, we would, in all probability, still be operating in Allied territory today. Particularly is this true in the Pacific where distances count for so much.

The significant aspects of naval aviation are not only the technological advances that have been made in airplane and carrier, but also the manner in which the plane has been integrated with the fleet. It is this high degree of integration that explains much of our sea-air success in the present war. The process of integration began in 1913 when the plane was coming to be recognized as a potent military weapon. In assimilating the plane, the Navy treated it as any other new weapon or new weapon-bearer—just as it had previously treated the submarine.

When the effective submarine first came into being shortly after the turn of the century, the Navy did not create a separate submarine, or underwater, corps, commanded by officers who knew submarines and little else. Instead, those Naval officers of the line who volunteered for submarine duty were considered to have additional qualification above and beyond the normal line requirements.

So it was with the airplane a decade or so later. In accepting the plane, the Navy did not junk its other weapons; nor did it give the plane an independent or semi-independent status. Instead, the plane was added to

the arsenal of the many weapons that are necessary to gain and to exercise control over the seas. Naval aviators are naval officers who are additionally qualified for the management and operation of aircraft. That has been the practice down to this day. The Japanese, uniquely among other Powers, have copied our methods in the matter of naval aviation development. Had the Japanese carried out such a development independently of our example and had we failed to develop an efficient integrated naval aviation arm, I can assure you that our country would have been confronted with disastrous probabilities.

Wartime developments in the employment of various other instruments of sea warfare are significant. The battleship and cruiser are types in point. The advent of the plane materially altered the technique of their employment, but far from destroying their usefulness made them, more than ever, essential elements of sea power.

Weapons, however, are not enough to win a war. They must be used with skill and employed in new ways. Although amphibious warfare is as old as history, we have through hard work and battle experience developed and perfected the technique of amphibious operations, in which the Japanese were apparently so proficient in the early days of the war. Such operations have, however, achieved a new importance because of certain geographic factors of this war; and, also, because modern weapons have made the defense so strong that amphibious attack has become one of the most difficult forms of the offensive. In former times, landing on an enemy shore was a fairly simple matter. Those afloat had more mobility than those ashore. The classic technique was to fool the enemy by a surprise landing where his defenses were weak or nonexistent.

In recent years however, it has become more difficult to outguess the defenders. This is owing to the development of mechanized land forces which permits the defenders to move with great speed, and the reconnaissance of aviation which precludes surprise attacks. In the special case of the war in the Pacific, we frequently have had to make frontal attacks against small islands where no soft spots could be found and there was no possibility of surprise. Consequently, new types of vessels and new types of weapons and equipment have been devised. We are still improving, with some of the ablest officers in the armed forces working continuously in applying the dearly-bought lessons of the war. In all such operations the cornerstone of our success has been the proved ability of the Army and Navy to fight as one team. It is significant that amphibious operations have initiated practically all of the Allied successes during the past three years.

I do not have the time to mention all the other uses to which instruments of sea power have been put in this war. But one of great importance is our development of the task force or task fleet. The idea was conceived

by the United States Navy years before the outbreak of war. It was tested and found to be sound in the various hit-run raids on the Marshalls and Gilberts, Marcus and Wake, in early 1942.

Another significant naval development has been in the field of supply. By speeding up the flow of men and materials to the fighting fronts, our fleets have been able to operate against the enemy over protracted and unprecedented periods of time. Never in the history of naval warfare have fleets remained away from their bases so long. Without such logistical support, the Pacific war could not have progressed so far or so fast.

Improvement in naval gunnery has been another outstanding achievement of the war. Prior to the war, the world's prevailing naval thought was that surface craft could not successfully challenge shore batteries. Our fleet has proved that view wrong. The big guns of our battleships and cruisers have successfully slugged it out with coastal guns on several beachheads in both the European-African and Pacific areas. In effect, the guns of the fleet have extended the area of sea control inland from the sea.

As spectacular as have been the achievements of the United States Navy during this war, I wish to add this sobering thought: we cannot patent or copyright them for our exclusive future use. Our successes and our mistakes, our tactics and strategy will be studied and copied or avoided by other navies for years to come. Today, we are truly writing the naval textbooks of tomorrow.

It therefore behooves this nation to keep abreast—no, *ahead*—of the times, in war and peace alike. We must, therefore, continue scientific research in the military field on a sustained basis even after the final victory. We must go still further. If we are to maintain our naval position in future years, we must augment the study of the science of war that has guided us in the past during peace. This has special application, of course, to the officers of our military and naval establishments. It seems unnecessary to expand on this point.

We are today confronted with two powerful warrior nations that have made the scientific conduct of war a continuing study, one of them for more than seventy-five years. When they struck, they struck swiftly and effectively, while their selected opponents were mentally and materially unprepared. Only because of our favorable geographic position and the brave delaying actions fought by our allies were we spared even greater reverses than we might have sustained. Never again can we afford to let future aggressors versed in the art of war take advantage of us.

Today there are people who gaze into the future and confidently predict that sea power—control of the seas—will not be a significant factor in determining the outcome of another war. Some of these prognosticators are the same as those who, earlier in this war, sang the swan song of the

battleship and consigned the foot soldier to oblivion.

Throughout the ages centers of civilization and power have gravitated toward the water. Access to the seas has made nations prosperous in times of peace. Control of the seas has made them powerful in times of war. There are no developments in this war that controvert the fundamental importance of the sea. Neither is there anything that depreciates the value of sea power—at least, nothing that need concern us of this generation or in the foreseeable future.

Because of the exercise of our sea power in this war, a significant two-fold result has been accomplished. First, even at the lowest ebb of our naval strength, we were able to keep the conflict 2,000 miles from our shores. The battles to protect the United States from invasion were fought in the Solomons, the Coral Sea, at Midway, and in the Aleutians—not off San Francisco, or Seattle, or San Diego. Second, our sea power has enabled us to maintain at all times the vital sea communications without which we could not support our allies. This gave us an advantage that is not sufficiently understood or appreciated. This is an advantage we must never relinquish.

I wish to point out particularly that the success of international agreements in the settlement of international disputes, especially in the early phases, will rest on world appreciation and recognition that these decisions can be—probably will be—enforced. Sea power will be an essential means to this end.

Moreover, it is well to take thought of the human factor. Just as in this day of mechanized warfare, the machines, ships, planes, tanks, guns which make war so deadly are as nothing without the men who man them and give them life. So it is with agreements and treaties. Without human will to make them work, or without the physical means to make them effective, they become and are in fact "mere scraps of paper". Theodore Roosevelt was, I think, quite right when he said: "Speak softly, but carry a big stick."

Possessed as we are for the moment, with naval greatness, it is difficult to believe that we will permit this power to be squandered or bartered away thoughtlessly. We will never do this, I am sure, if we understand what it might mean in terms of America's future in the world of tomorrow.

Hence our sea power should be maintained. Furthermore, it should be dedicated, in war and peace alike, to promoting the security and well-being of our people and to the peaceful stabilization of an improving world orderliness. We who have gone through this war have paid the penalty of forgetting the lessons of the years between wars. This time we shall win the victory despite our past mistakes. But next time, the penalty of forgetting may be the loss of America, and of liberty as we have known it.

[The audience arose and applauded.]

## REMARKS BY THE CHAIRMAN

PRESIDENT DOUGLAS: Admiral King, I cannot adequately express to you the gratitude of this audience for your appearance here tonight and for the views that you have here expressed.

What I have said about the influence of sea power was stated, not in precisely the same terms—and I promise you that I shall not quote Admiral Mahan—in a conversation that is reported to have taken place between the Prime Minister of England, after the fall of Dunkirk, and a very respectable, delightful and somewhat elderly lady, who was an inhabitant of the southern part of Ireland. She did not speak to the subject with the same logic that you used, Admiral King, but her conclusion was precisely the same.

Said she to the Prime Minister of England, "Sure, and I hope they come over and I hope that they plant their iron heel on everybody in the British Isles, in England, and then in Scotland, too."

"Well," said the Prime Minister, "don't you realize that, should that occur, shortly they would be in Ireland, doing precisely the same murderous things there?"

"Oh," she responded, "sure, and the British fleet would never let them do that!" [Laughter]

I have said that we are living in an age of miracles, but more than that I think it is fair to observe that each crisis in the nation's history, by some curious twist of fate, produces its great men. The organization, training and equipment of the American Army, its development from a mere corporals' guard to one of the greatest fighting forces in the world, all this is another of the miracles of our time. The guiding genius is the Chief of Staff, who is responsible for this particular miracle. Few men in American history have so completely earned the full confidence of our entire citizenry as has General Marshall. [Applause]

You, sir, made this evening a great occasion by being willing to take from your active life the time and energy necessary to speak to us. Before introducing you, may I remind the representatives of the press, the members of the Academy, and its guests that General Marshall is speaking "off the record", and that there should be no public notice taken of what he says, no publicity in the columns, and no disclosures that might lead ultimately to some reproduction of his observations. By respecting General Marshall's confidence in us, we can demonstrate and prove our great confidence, our supreme confidence, in him.

[The audience arose and applauded.]

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## REMARKS BY THE CHAIRMAN

PRESIDENT DOUGLAS: General Marshall, the response of the audience is far more eloquent than the words anyone might offer to you by way of gratitude.

The hour is late and our hopes are high. Let them remain high, and on this note, let us adjourn.

## PART IV

### SOCIAL AND ECONOMIC RECONSTRUCTION

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#### INTRODUCTION \*

SHEPARD MORGAN, *Presiding*

Vice-President, Chase National Bank of the City of New York  
Trustee of the Academy of Political Science

OUR topic this morning is "Social and Economic Reconstruction". As chairman of this meeting, I am not going to interpose any of my observations. I have only one thought, and that is an expression of a hope. I hope that the speakers when they consider this topic will take into account the item of cost. It is natural to assume that I am talking about money cost. That, I think, is the least of the costs we may be called upon to pay. I am thinking not only of the cost in money, but the cost in individual freedom, the freedom of the individual.

The United States is a very wealthy country. We manifest not only in time of peace but in time of war the amazing productivity of this country. It is the wonder of the world.

We also have in our minds an assurance of freedom. That freedom is as easily come by and as natural a factor in our lives as the air we breathe. Thus we are apt to be taken off guard, being so sure of both our wealth and our freedom.

The measures that we may have to take for the aid of ourselves in the difficult period confronting us at the close of the war are bound to be burdensome. The aid that we may be called upon to give to the rest of

\*Opening remarks at the Fourth Session of the Semi-annual Meeting.

the world will also be burdensome. Both should be considered in terms of their cost in money—that is, whether our establishment, great as it is, can stand it—and also whether the measures taken will impair the liberty our ancestors set up in this country one hundred fifty years ago.

I hope the speakers will give us some clue on this point in the course of their talks.

The first speaker this morning is an old friend of mine, both in his own person and in the person of his father with whom I was associated for many years. Everett Case, despite his youth, is the President of Colgate University. We are very happy to have him here. He is going to talk to us on "Education for a Lasting World Peace". Dr. Case!

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## EDUCATION FOR A LASTING WORLD PEACE

EVERETT CASE

President of Colgate University

WE are allowed twenty minutes this morning in which to establish a lasting world peace—by the slow and painful process of education. We have, it appears, no time to waste.

One fact is immediately clear: there is no substitute for this process of education. Popes, emperors and kings, and numerous high contracting parties have sought from time to time to impose and even to maintain peace by force, by fiat or by treaty. In the end the dynamic and disruptive forces of a world in ferment proved too powerful. In the end neither the *Pax Romana* nor the *Pax Britannica* was proof against the fatal combination of internal negligence and external pressure.

The failure in each instance was twofold. Constituted authority failed to teach the barbarians, on the one hand, the desirability of peace; or the civilized peoples, on the other, the endless difficulty of securing it. It was a failure not merely to organize but also to educate.

Thomas à Kempis posed the problem some five centuries ago, in searching and still highly current terms. "All men", he wrote, "desire peace, but very few desire the conditions requisite for peace." (It is worth remarking that his verb is not *understand* but *desire*.) Will the bombing of German and Japanese cities convince those peoples at long last of the ultimate horror and futility of war as an instrument of policy; or will it inspire the stricken survivors with a frenzy for revenge? Will the victors this time understand, in their major implications, the conditions requisite for peace; and, understanding, deeply desire them, even when more immediate devices and desires clamor for priority?

Such questions, like past failures, suggest clearly enough the imposing dimensions of our educational assignment. It is a task one can hope this morning only to sketch in crude outline, but it is a task we dare not shirk. As a young alumnus turned soldier writes me from the Pacific, we must remember Pearl Harbor as a lesson not merely in Japanese duplicity, but also in the catastrophic costs of American folly. By the same token, we must see this war as a consequence not only of dictatorial arrogance, but also of democratic bungling. Thus if we must seek means of correcting the vicious educational systems which fed the Nipponese and Nazi fury, we would better not ignore the anomalies and absurdities of our own.

Shall we be equal to this dual assignment? Can we define the ends and discover and apply the means? Let me remind you that these questions are neither rhetorical nor academic. They pose no easy options. They pose a categorical imperative, which in turn is dictated by the terror of our situation.

How else describe the circumstance that, for the first time in history, man possesses the means of wholesale self-destruction? Certainly our progress in this direction, dimly foreshadowed in Act I of the present tragic drama, has been nothing short of prodigious. Act II, for all its long-drawn agony, will be as nothing to the wilderness of terror which Act III would certainly disclose. Only as each act approaches its climax can the discerning eye perceive the incredible shape—the appalling pace—of things to come.

Rome was not built in a day; but in little more than a day Rome or any other city can now be utterly destroyed. It could be defended for a time, no doubt, and slowly rebuilt; but the forces of destruction move with a speed that constructive forces have never learned to emulate. A beginning has already been made toward releasing the energy of the atom. To what purposes will this boundless source of power be ultimately directed? Shall we be content merely to wait and see? Shall we be content to leave it to fortune—or to certain high contracting parties—to see that the curtain never rises on Act III?

This is the point at which the speaker usually pauses to explain that he has no wish to be an alarmist. I shall not follow that custom this morning. I tell you it is high time we became alarmed—if not for ourselves, then for our children and for our children's children. It is time, in the words of one poet angered by man's inhumanity to beasts, that "parson lost his senses and people came to theirs." And *our* concern, our desperate concern, is man's inhumanity to man.

## II

How are we to secure and harness for humanity the vast powers which science discovers and releases but cannot and does not pretend to control? That is our problem. It is nothing if not dynamic. It underlies Yalta and Bretton Woods, Dumbarton Oaks and San Francisco. It challenges our governments and our churches. It clamors for the attention of our industrial and labor leaders. It has become the central problem of education.

If we are to attack it successfully, we must begin, I submit, by taking fresh observations of our world and its inhabitants. Unfortunately, one can do no more this morning than take off and report briefly on two or three of the major landmarks.

Challenging immediate attention, for example, is the essential unity underlying the chaos of our one, and now distracted, world. How slow we have been to grasp this fact, much less its implications! Long before a Columbus, a Copernicus and in our day a Wendell Willkie had taken such pains to confirm it, this truth had been intuitively perceived and proclaimed by philosophers and prophets, and given special poignancy by the life and teachings of the Jewish founder of Christianity. We ourselves, it appears, have been far more stubborn skeptics than Thomas the disciple ever was. Even today there are those who deny war's compelling demonstration that we are all in the same boat, and that there isn't any other.

For Americans, especially, this is a hard but important truth. Floating upon two oceans, we have seemed to occupy a vast and sufficient ark of our own. To drop the figure, our country was settled by men and women who, dissatisfied with their environment, moved west in search of greener fields; and their descendants have never wholly lost the habit. Instead of facing and solving the problems of our home communities, for example, we have a national disposition to move on.

But in a global sense, man has achieved no such freedom. Science has yet to provide us with the means of escaping from our small and dizzy planet; we are still earthbound for our mortal lives at least. It follows, then, that if education for citizenship begins, like charity, at home, it would better not stop there. It follows that we must devote all our talents and ingenuity toward making our one world what it has yet to become, "the best of all possible worlds".

The second emergent fact is the drastic shift, since we last attempted to make peace, in the balance of power—political, economic and social. On the domestic front, there is the rise in the power and influence of organized labor, with all its undisclosed potentialities. On the international front there is the rise in the power and influence of Soviet Russia to which only a dozen years ago we still refused diplomatic recognition. Let us beware, in foreign and domestic policy alike, of behaving as though such changes have not occurred.

Today, for example, the United States and Russia possess powers and responsibilities which not even Britain, much less France and the older European states, can pretend to share on the basis of equality. I do not mean that the British Empire or a resurgent France or a unified China may not be factors of major importance in the total equation. I do not mean to minimize the rights, obligations and influence of the smaller states. I believe on the contrary that we should guard them most insistently. I merely point to the obvious fact that in the international scene, the resources and influence of the United States and of the U.S.S.R. are paramount and, therefore, primary factors.

This proposition has two significant corollaries. Thanks to the resources and continental expanse of the American and Russian states, neither the one nor the other of these Powers is inherently imperialist in its outlook. On the other hand, neither is experienced in the complex and sensitive task of world leadership. Therein, of course, lies one of the major tasks and opportunities for education.

Third and most fundamental of the facts which challenge fresh study and attention is the impact on man himself of the revolution in science and technology. I use the word revolution advisedly, for it is not only in obvious and spectacular ways that science is constantly changing the conditions of human living. In hundreds of little ways, as Wallace Donham has pointedly observed, it uproots us and sets us down lonely and distracted in a new and unfamiliar world.

It challenges traditional customs and beliefs as well as hard-won skills. It upsets our social and moral as well as our economic equilibrium. It brings about new and disturbing concentrations of power in the domestic as well as in the international scene. It taxes and doubtless overtakes man's capacity for adjustment, and thus is responsible in no small measure for the frantic plunge of our times into political and moral revolution and war. Perhaps one may pause here to remark that, in so far as problems of this sort have been responsible for war, victory itself is no automatic solvent. It will give us only another and dearly bought opportunity to effect solutions which our minds and hearts and consciences can support. Except as we embrace this opportunity, and embrace it in that spirit, we shall hardly discover, much less desire, the conditions requisite for peace.

### III

Let us see then how these observations apply to our domestic situation and affect America's responsibilities. Much has been said—though not necessarily all the right things—about the "lag" of the social sciences and the humanities. Such a lag is rightly disturbing but, from one point of view, it is hardly surprising. Certainly science and technology have been lavishly subsidized by the forces of benevolence, on the one hand, and of malevolence, on the other. (War's impact is uneven, but, on the whole, war acts as an accelerator.) They have been lavishly subsidized, too, by industry intent on meeting and even anticipating human needs and wants. Indirectly, then, we have all had a part in the process.

One looks in vain for anything like equivalent support for research, experiment and study in the area of human adjustment to constant and accelerated change. Specific projects in the humanities and in the so-called social sciences, typically confined to a narrow segment of a single

discipline, have been supported by grants in aid from various quarters. Total contributions, however, have hardly been a trickle compared with the vast stream of funds released for research in the natural and medical sciences. Moreover, the pattern of attack on narrow and carefully delimited segments, which has yielded rich harvests in the natural sciences, is not necessarily adequate for the humanities or even for the social sciences.

The times, I submit, demand a change. Bold measures should be taken, and taken promptly, to redress the balance. The war, with its shattering of inertia and routine, has stirred in the colleges and universities a healthy mood of self-criticism and a disposition to reëxamine educational ends and means. It has also disturbed academic vested interests sufficiently to afford a matchless opportunity for an advance in general education.

Feeling as we do that victory will confront education with the most challenging assignment in its history, with more depending on the outcome than one cares lightly to admit, American educators are in no mood for reckless change. Certainly we do not pretend for a moment to know all the answers. Some of us, however, see an imperative need for considered, and it may be daring, study and experiment in general education at the college level.

The importance to our society of trained scientists and technicians is obvious. The importance to our society of liberally educated men, responsibly aware of human history, human problems and human potentialities, must be equally obvious. Whether one looks to industry or government or the organization of the peace, the critical problems are not technical but human and social. Their solution depends upon character, responsible intelligence, and a capacity to see in clear perspective the complex relationships, and the social and moral values, of an imposing array of factors. Thus effective *general* education becomes not less important but more, and the rôle of the *liberal* college is not peripheral but central.

We are increasingly aware of obstacles to the effective performance of that rôle. They are not easily removed. I am convinced, however, that there is promise in exposing our students, or a selected group of students, to a curriculum which is frankly and deliberately built around a core of prescribed and intimately related courses, to be organized and administered under university rather than departmental auspices. Such programs, incidentally, will require the use of living and dynamic materials for teaching, and may well afford the opportunity for fresh experiment in student motivation. In the hands of the skilled teacher, for example, concrete problems requiring of the student responsible decision in terms of action may offer both a challenge to intelligent reading and study, and a genuine inducement to learning. And the effect upon the teacher may be equally salutary.

Obviously the schools have problems antecedent, though not unrelated, to the problems of the colleges. They are challenged, no doubt rightly, to expand their educational services, even while consolidating the extraordinarily rapid expansion of the past four decades. In the schools, as in the colleges, new subjects and new problems continue to press their claims just as we are wondering whether the proliferation of new courses is not crowding certain fundamentals to the wall.

It is possible this morning only to bow, in passing, to these and other important problems. I have long suspected, for example, that formal education bears approximately the same relation to total education as the visible part of an iceberg bears to the largely submerged whole. The importance of the early influences exerted by home and church and community has often been remarked; but our actions too often belie it. Moreover, it seems to me only less important for our times that education continue in something more than a haphazard sense throughout our adult life.

Man *can* add to his intellectual and spiritual stature by taking thought. Despite superficial evidence to the contrary, he is not yet dominated by the machine. In fact, with its new shoes of swiftness and its other magical powers, the *idea* has become more potent than ever before. For our times, this thought is at once sobering and reassuring. It is sobering because, in the hands of a Hitler who uses every device, new and old, for playing upon the credulity of a disgruntled people and the incredulity of others, the idea can be unimaginably destructive. It is reassuring because even the most perverted idea can be combatted, and one day put to rout, by the laggard but inevitable truth. Certainly the history of this war shows that ideas are not necessarily subject to any Gresham's law. It suggests, on the contrary, that the first task of education is to recognize the determining importance of the human mind and heart; and so point out the compelling importance of developing, on the widest possible front, attitudes and motives, ambitions and skills, which really do justice to man's deepest and truest insights.

#### IV

Already the air is vexed—as I hope it will be cleared—by arguments over the scope of American responsibility. At one end of the spectrum a frantic minority urges that we take over and administer the German and Japanese schools and universities, even after the occupation, and proceed systematically to convert their youth to democracy by forced indoctrination. Of such persons one is tempted to say that they know little of history, less of democracy, and nothing at all of education or of human nature. At the other extreme are the educational isolationists—reformers as well as reactionaries—who insist that we wash our hands of Europe and Asia on the

ground that our own educational problems are sufficient to keep us busy. Of those who advance this too familiar argument, one is tempted to say that they have learned nothing and forgotten nothing.

Shall we falter before this old and decrepit dilemma? Must we again impale ourselves upon one of its rusty horns?

Nonsense. Only the fool builds his brave new home with devoted care in an area notoriously subject to fire or storm or pestilence, in blithe disregard of the dangers of his environment. The wise man, discovering that he has no option about the site—or that he already enjoys the best available—will be the first to press forward with his neighbors for collective measures of prevention and correction. Does this mean that he is interfering in matters that do not concern him? Does it mean that he is neglecting his own concerns? Or does it mean that he truly perceives the scope of his own needs and acts accordingly? Is the fool or the wise man really minding his business?

By the same token, only the fool supposes that we can, or should, do in Germany and Japan, in democracy's name, what they attempted in the areas they conquered. I am not now speaking of military government, but of education, and in severely practical terms. I tell you that nothing is more certain to excite patriot resistance and ultimately discredit the cause we seek to promote than forcible attempts to impose an alien culture.

How then shall we resolve the issue? One immediate step is clear. We should urge with all the force at our command that at the first practicable moment an international agency of education be established, in which the United Nations and ultimately all peoples are represented. And we should demand full American participation.

The first duty of this agency should be to define and publicize such principles and objectives as concern education and are found to be held in common. It should do all in its power to keep the channels of education free. It should have broad powers of scrutiny, discussion and publicity. It should also have power to recommend action with respect to all departures from its working code, wherever they may occur. Once stated—and others have already stated it with far more eloquence than I possess—the imperative need for such an agency as a part of the organization for collective security appears self-evident.

But because the need may appear self-evident as we focus our attention on the problem, let us not suppose that it is self-evident in fact. (Was it Ambrose Bierce who defined self-evident as evident to oneself?) The establishment of such an agency as a forum for full and free discussion of educational ends and means would of itself be a potent educational force, especially if freedom of the press and of the radio is widely secured. But unless we use these and other means to broadcast now and later the im-

portance, to our hopes of peace and hence to all peoples, of such a world agency of education, it will not be established; or being established it will not succeed.

In our world, and in the world of the future, time presses. As Germany and Japan have demonstrated, the seeds of war are planted in the educational system. If in all our talk of peace we mean business, we dare not wait until these seeds have yielded their poisonous harvest. To do so is to place an unfair burden upon the machinery of political conciliation. It is to multiply many times the task of our agencies for enforcing the peace. If we want a harvest of peace, let us put an end to this everlasting sowing of dragon's teeth. But let us as practical men go about it by lawful process and through common agencies democratically controlled.

Do we fear the issue? Are we apprehensive of the ultimate fate of the Christian and democratic gospel—the gospel of human freedom—which we profess? Do we fear, in short, that if education were universally free, the tares would choke the wheat?

In the Foreword to the Regents Inquiry, published in 1938, there occurs a striking statement, the implications of which should at once sober and hearten us as we begin at last to establish the dearly won bridgehead which is victory and look ahead to the endless and all-important struggle to consolidate and extend it. As it concludes the Foreword to the Inquiry, so it concludes my part in these proceedings.

"It may well be doubted", so runs the passage, "if there can be democracy without free education, or anything else but democracy where education is free."

#### REMARKS BY THE CHAIRMAN

CHAIRMAN MORGAN: I see by your close attention that you have been as deeply impressed by Dr. Case's talk as I have been. It was singularly stimulating.

We come to another phase of the morning's topic, "Relieving World Distress". Fortunately, we have as a speaker one who has been devoting his life to one phase or another of this, to my personal knowledge, for thirty or forty years. Formerly Assistant Secretary of State of the United States, he was largely instrumental in developing the successful reciprocal tariff arrangements made during the Secretaryship of Mr. Hull, and now he is Diplomatic Adviser of the United Nations Relief and Rehabilitation Administration, known as UNRRA.

I am very happy to introduce to you my old friend Francis B. Sayre.

## RELIEVING WORLD DISTRESS

HONORABLE FRANCIS B. SAYRE

Diplomatic Adviser, United Nations Relief and Rehabilitation Administration

**T**ODAY the peoples of the world, and particularly the peoples of the United States, are seeing in truer perspective and are willing to make commitments which they were *not* willing to make after the last war. Our twentieth-century science and technology have confronted us with a categorical imperative—an imperative that demands that we substitute for the outworn static values of national isolationism the dynamics of international coöperation and interdependence.

The new world into which this war is flinging us demands a new approach. Blind courage at Dunkirk was not enough. Similarly, if we bring to the problems of international peace and reconstruction a set of techniques based on national self-interest, good will at San Francisco will not be enough. History demands of us a new orientation—one that is global.

Our course is clear. If we would go forward, humanity and not national self-interest must come first. But today, in the wake of the most cataclysmic war in history, we are confronted by a suffering humanity. There has never been anything like it before. Let us have no delusions. There will be much discussion at San Francisco how to devise techniques to safeguard the security of the world. But security cannot be built upon starvation. The road to peace and reconstruction must be over the bridge of relief and rehabilitation. Unless we are able to find a way to translate the hopes of Europe's and Asia's liberated millions for relief and rehabilitation into tangible and speedy realities, the loftiest ideals and the most careful planning at the forthcoming conference at San Francisco will be of small avail.

I wonder if we in America are fully cognizant of the harsh and brutal facts. They are frightening in their implications. In spite of all that the liberated peoples can do to help themselves, disease and hunger and destitution are grimly stalking through Europe and Asia. Let me tell you about a typical Greek village. It is called Domvrena. It was visited a short time ago by Dr. Frank Munk, the eminent Czech economist and present Director of Training for UNRRA. This is his eye-witness account which

he brought back. Domvrena was burned over by the Germans not once but twice. At the approach of the Nazis the population took to the high mountains surrounding it. Those who were not fast enough were killed by the Germans, and their bodies, as well as those of dead animals, were thrown into the wells to make the place uninhabitable in the future. No sooner had the German armies left Greece than the people of the village began coming back again. Of their homes only the stone walls remained. Dr. Munk visited Domvrena some two months after their return. The people of Domvrena were already hard at work trying to restore their shattered economy. There was no timber in the village. Men and women climbed the mountain side, felled the pines and brought the logs down on their backs—eight hours up and five hours down. They brought one log after another until they could build a little shelter—a kind of lean-to, in a corner of two charred walls. Roofing was a problem because the mud would get washed out by every rain but they hoped that some kind of roofing material would finally find its way to Domvrena. They did more than just repair their flimsy shelters. First, the whole village started to rebuild their church, dynamited by the Germans. Services were already being held in the church, although the priest was still living in the morgue. Next, the school was restarted; it still had no roof, no windows, no doors, no furniture and no equipment with the exception of one book and a map cut out from the newspapers. The third thing which the whole village tackled and got going was the mainstay of their livelihood, the village coöperative that ran the olive press. The villagers knew that once the press was working again—and they eventually repaired it—they could exchange the oil for wheat and together with the small relief rations they were getting from time to time they would be able to survive the winter. That is, most of them—though 75 per cent of them have malaria, 26 per cent have dysentery, and many of the children have scabies and trachoma.

Domvrena is typical. In every liberated country of Europe today the people are gallantly struggling to regain their feet. It is UNRRA's job to help them to help themselves.

From Greece to northern Norway, from Holland and Belgium to Poland there are literally thousands of Domvrenas, once prosperous villages, now charred ruins, with decimated populations struggling against destitution and disease. Europe is cold—Europe is hungry—Europe is sick. In Yugoslavia today, although in some regions the harvests have been ample, less than a hundred miles away the people are dying of starvation because there is no way of transporting the grain to where it is needed. For five years the textile mills in Europe have not been turning out civilian goods. Protracted hunger, inadequate shelter and insufficient clothing breed disease.

Children have been among the war's hardest-hit victims. Malnutrition has caused tuberculosis and rickets among a high percentage of the

children of Eastern Europe. During each of the last two years, diphtheria is reported to have stricken almost a million people in Europe outside the Soviet Union. Typhus and malignant malaria are taking a heavy toll. There is nothing more international than disease; and let us remember that after the war millions of refugees will be trekking home, in many cases either out of or into contaminated areas. The spread of disease cannot be stopped by national boundaries. Neither can economic disintegration. Neither can the ferment of social unrest or political instability.

There can be no doubt about it: in our modern, interdependent world post-war security for ourselves is contingent upon relieving the distress of our liberated allies. Our task is, not to undertake to bring in from the outside all the relief which they will need, but to help them, in so far as we are able, to provide their own relief.

It has been estimated that, in the eighteen-month period following the cessation of hostilities, Europe's needs exclusive of the Soviet Union may amount to somewhat close to 100 billion dollars. I need scarcely point out that UNRRA can meet only a fractional part of these monumental needs. The European nations intend themselves to take care of some 90 per cent of their needs from their own indigenous resources. As to relief goods which will have to be brought in from the outside, those countries of western Europe which possess foreign exchange resources intend themselves to pay for all or most of their imports. But there are other nations as fiercely proud, who have given their full measure of blood and treasure in meeting the hammer blows of the Fascist blitz machine—gallant nations such as Poland, Czechoslovakia, Yugoslavia, Albania and Greece—which have very limited foreign exchange resources. They must be assisted with immediate supplies and services if they are to get back on their feet.

UNRRA's assistance will represent less than two per cent of the total relief and rehabilitation needs of the United Nations throughout the world. But this two per cent, while moderate from a financial viewpoint, is all-important in that it represents particular goods and supplies, vitally necessary and crucial for relief but perhaps unobtainable through ordinary channels because of world shortages of shipping and of supply. In particular areas such assistance will be crucial. There must be shipments of food, fuel, clothing, building materials, and medical supplies, and also shipments of seed, fertilizer, and basic farm and fishing equipment, to enable destitute peoples to rehabilitate their food-supplying resources. Public utilities and smashed transportation systems present additional problems. Meanwhile, the millions of refugees and displaced persons who have been torn away to serve as slave labor in Hitler's war machine must be assembled, fed and repatriated to take their rightful place in their homeland's reconstituted economy.

It was to meet these fundamental needs that on November 9, 1943, forty-four United and associated Nations signed the basic agreement which called UNRRA into existence. UNRRA is the first operating, international agency of the United Nations and, as a result, UNRRA is in large measure a testing ground for collaboration among these nations. Its task is a specific one: to provide relief assistance to those countries which are unable to provide their own. It was never contemplated that UNRRA should contribute bulk relief to countries which could provide their own.

Thus far the amount which the member states have contributed or taken steps to have appropriated totals a little less than two billion dollars. The American share is \$1,350,000,000—roughly equivalent to what the war is costing the United States every five days. The total cost of UNRRA is borne proportionately and democratically, for it was agreed that the uninvaded nations would contribute in the form of supplies and funds such resources as each felt able to give for the relief of nations whose territory had been the battleground and whose people had suffered the horrors and devastation of war. The yardstick adopted was that each uninvaded country would pay approximately one per cent of its national income for the year ending June 30, 1943.

At first glance, UNRRA's organization is not unlike that of any democratic national government. Its policy-making body is the Council, roughly comparable to a legislature or parliament, composed of one representative for each of the forty-four member states. The UNRRA Agreement also establishes an executive authority, headed by the Director General, who is elected by the Council to carry out the Administration's program of relief operations.

But UNRRA is unique in the nature of its power. UNRRA has no sovereignty of its own. It is first and last a service agency—a creature of the governments which created it. Its resources and its powers are derived exclusively from governments. UNRRA cannot go out and commandeer shipping. That is controlled by the governments. UNRRA cannot tell the supplying nations—such as the United States, Canada and Great Britain—"Give us this and that of your shipping and supplies." UNRRA cannot demand; it can only recommend action to the sovereign United Nations and carry out their decisions. As a service agency, it exists to be used—or not used—at the discretion and pleasure of the United Nations. On the other hand, perhaps I should add that while UNRRA lacks the power to commandeer, it is part of UNRRA's responsibility to the liberated peoples forcefully to present their needs to the ultimate authorities and effectively and persistently to urge their satisfaction.

Everything which UNRRA undertakes must rest upon the basis of voluntary coöperation—voluntary coöperation with the member govern-

ments, voluntary coöperation with the military, voluntary coöperation with the international allocating agencies, known as the Combined Boards, and voluntary coöperation with the privately financed relief agencies.

Before an army can dare open a campaign, it must spend months previously planning its strategy, working out its logistics, assembling and coördinating men and matériel. It has been truly said that an army's time is taken up principally with waiting. But its waiting is not purposeless; and at a moment's notice it must be able to strike toward its objective. The Allied armies are the United Nation's weapon against the enemy on the battlefields; UNRRA is the United Nation's weapon against the foes which follow in the wake of the armies. UNRRA's is primarily a post-military job. But before it can fulfill that task, it too must spend months of waiting and planning—waiting until military conditions permit it to operate in the field—planning with the most minute care: assembling its staff, making the proper military and political arrangements, holding itself in readiness to bring into action the men and supplies which it has procured.

From the very outset UNRRA pressed forward upon the work of concluding important agreements and arrangements with the military and with governmental authorities. In the case of freshly liberated areas still under the control of the military, UNRRA operates only from such a time and for such purposes as may be agreed upon between the military command and UNRRA. After the military relinquishes control, UNRRA then operates at the request and with the consent of the government or recognized national authority of the territory in question. The initial task, therefore, was to negotiate fundamental agreements with the military. In March 1944 arrangements for coöperation in the lower Balkans were worked out with the Supreme Allied Command of the Mediterranean. Shortly afterwards conversations were commenced in London with Supreme Headquarters, Allied Expeditionary Forces. Under the arrangements resulting from these conversations and from the agreement signed last November between Governor Lehman and General Eisenhower, UNRRA officials are now assisting Civil Affairs officers of SHAEF in the liberated areas of western Europe.

Meanwhile, other groups of UNRRA officials entered into conversations with representatives of the governments of European occupied countries to work out agreements with them covering relief assistance after the military period had terminated.

In the Balkans UNRRA activities are proceeding today at an accelerating pace. UNRRA workers are already in Greece and Yugoslavia. Following discussions between the Director General and the U.K.-U.S. military authorities in Washington, the Combined Civil Affairs Committee issued to the Mediterranean Theatre Command a directive which stated that it

is the view of the United States and British governments that UNRRA should take over responsibility for relief and rehabilitation in Greece and Yugoslavia as soon as possible.

The directive stated that April 1, 1945 is envisaged as the target date on which the military period will terminate in Greece and full responsibility will be assumed by UNRRA. At the termination of the military period all military relief supplies for Greek relief in the theatre will be turned over to UNRRA.

A basic agreement covering UNRRA assistance in the post-military period was signed with Greece on March 1 and one with Yugoslavia was signed last week in Belgrade.

Another agreement was signed with Czechoslovakia on February 26. Cargo is already being assembled and shipped to Black Sea ports for both Czechoslovakia and Poland.

The problem of relief for Italy, an ex-enemy nation, now a co-belligerent, was discussed at the recent Council Session in Montreal. At one of the most moving scenes I have witnessed for many a day, the representatives of Greece, of Ethiopia, and of Yugoslavia, each in turn arose and with deep feeling declared that although Italy's cruelties and profound wrongs to their countries could never be forgotten, nevertheless their countries would not stand in the way of relieving human suffering. The Council then voted to engage in a program of limited relief, confined to medical aid, assistance for displaced persons, and welfare services to children and nursing and expectant mothers, the total expenditure not to exceed \$50,000,000. The UNRRA program in Italy is designed to supplement, but not to supplant, the bulk relief going to Italy from military and other sources. More than 5,000 tons of supplies have been shipped to Italy from the United States, including foodstuffs, trucks, medical supplies and clothing. Approximately 25,000 additional tons are scheduled for shipment within the next few weeks.

In May 1944, UNRRA accepted responsibility for administering six large refugee camps in the Middle East. These Middle East camps were originally organized by the British Army for taking care of thousands of Greeks and Yugoslavs who fled when the Nazis invaded their homelands. UNRRA has been caring for these refugees—who number upwards of 50,000—and has looked after their physical, religious, educational and social needs. Recently, UNRRA shipped home to Yugoslavia its first shipload of refugees—some 1,500 in all.

Across the globe UNRRA is at work in Chungking and at Sydney. In March 1944 a group of three UNRRA experts was sent to Chungking to assist the Chinese government's Commission on Planning and Investigation of Relief and Rehabilitation. As a result of this preliminary work a group

of UNRRA officials is now in China assisting the Chinese government in helping to prepare for the monumental task of relief and rehabilitation which awaits China. This may prove to be one of the most important and far-reaching of any of UNRRA's multitudinous tasks.

Two types of relief services—for health and for displaced persons—must rest upon close international coöperation, for these transcend national boundaries. In these days of constant international travel and trade, the spread of disease and epidemics from nation to nation can be successfully guarded against only by an international reporting service and an international standardization of quarantine regulations and immunization operations. This work has been undertaken by the health section of UNRRA, which drew up two international sanitary conventions to enable nations to combat effectively the spread of epidemics and disease. These conventions have now been signed by eighteen nations and are being administered by UNRRA.

This war has confronted UNRRA with the greatest migration problem in history. Twelve to fifteen million displaced persons in Europe—and a far greater number in the Far East—will have to be assembled, fed and repatriated. Many of these—adults and children alike—possess nothing but the clothes on their backs. Already General Eisenhower has requested UNRRA to provide trained personnel—numbering from 4,500 to 6,000—to operate assembly centers for the millions of displaced persons and refugees now in Germany. UNRRA could give but one answer. UNRRA has assumed its full responsibility for doing its part in caring for and helping home these millions of destitute and tragic victims of modern warfare.

UNRRA has been working with all possible speed and vigilance. But as Director General Lehman recently emphasized: "UNRRA can succeed in its mission only if it is given the tools and facilities with which to work. These tools and facilities can be made available only by the governments themselves. In a word, it is absolutely essential that UNRRA have: (1) shipping; (2) adequate supplies; (3) inland transport, and finally, the full coöperation of the governments concerned in the furnishing or distributing of supplies."

Let us remember that UNRRA is not a superstate with powers to commandeer ships and supplies—without which it must inevitably fail in its historic task. We all appreciate the fact that fighting two major wars on opposite sides of the earth has confronted the United Nations' leaders with an unparalleled logistics problem. We all know that shipping is our greatest bottleneck and, further, that in any sane strategy of first-things-first, the military must have its needs taken care of first. We also understand that, with every mile liberated by our armies, our relief problem

grows proportionately. At the present time, our military and relief needs are mounting in unison—and there are simply not enough ships to take care of all the needs of both.

But despite this formidable obstacle, UNRRA's work must go on—indeed, must be accelerated. For the United Nations have solemnly undertaken the task of assisting those untold millions who sacrificed everything in the common fight against fascism. We have promised to care for the relief and rehabilitation needs of liberated peoples for three major reasons: (1) because common humanity demands it; (2) because social unrest and anarchy would jeopardize military operations and delay final victory; and (3) because we cannot hope to establish a just and lasting peace if liberated areas are allowed to fester with disease, unemployment, inflation and unrest.

Prosperity, like peace, is indivisible. And just as it has required the collective action of the United Nations to smash the enemy and lay the foundations of an enduring peace, so it will require the unstinting and coöperating efforts of all nations, and all men, to build a world economic structure to ensure global security and prosperity. In UNRRA the United Nations have taken their first step.

UNRRA sets the direction and marks the way forward. The peoples of the world are beginning to realize that their highest national interests are served by seeking with steadfastness of purpose the common welfare of humanity.

#### REMARKS

CHAIRMAN MORGAN: This is a stupendous problem. The report was most earnestly and persuasively presented. We are grateful to you.

We have heard from Mr. Sayre about the appalling needs. That is the demand side of the balance sheet. We will now hear from Mr. Tolley, who is the Chief of the Bureau of Agricultural Economics in the Department of Agriculture in Washington, about one of the major elements on the other side of the balance sheet, that is to say, the raising of the food. Few people know as much on this subject as Mr. Tolley. I am glad to introduce him to you.

## RAISING THE FOOD: WORLD NEEDS AND THE ROLE OF THE FOOD AND AGRICULTURE ORGANIZATION

HOWARD R. TOLLEY

Chief, Bureau of Agricultural Economics, United States Department of Agriculture  
United States Representative, Interim Commission on Food and Agriculture

**F**ULL production of food and full use of the world's food supply will be essential both to the short-run job of clearing away the wreckage left by this war and to the longer-range task of building the foundations of a better world.

Hunger is as old as history. It is one of the primary forces that have made so many of the pages of history so dark. If we want the future pages of history to be brighter than those of the past, one of the things we shall have to do is to banish the fear of hunger. That means abolishing the causes of hunger. Not so many years ago such an aim would have been thought fantastic. Today we know better. It is still difficult, yes; but no longer out of reach. Modern science has made entirely possible the production of ample food for all of the people of the world. Surely we have the economic and social inventiveness to find ways of using abundance so as to promote the welfare of both those who consume food and those who produce it.

In any discussion of the place of food in post-war reconstruction, a sharp line must be drawn between the first period of relief and rehabilitation and the longer period of development that will follow.

The immediate need in the first of the two periods is for quick and effective action to get food to hungry people in areas laid waste by war. A second need, almost as pressing, is for helping food producers of those areas get back on their feet as quickly as possible.

Millions of people are hungry. As our armies advance, more and more people will be looking to the United Nations for food. The food must be provided, not only because it is the humanitarian thing to do, but because ultimately it is the wisest thing to do in our own interest.

The stability of the world may well depend on how much food is available in the devastated nations in coming months. Hungry people do not

tend to be wise or even-tempered. Often they are not even reasonable. Hungry people are not likely to build durable political institutions or to plan and turn out adequate industrial production.

A tremendous responsibility rests on the great food-producing nations whose resources for turning out food are untouched by war. Until the farmers and fishermen of Europe and Asia have fully gone back to their peacetime callings, there will be calls for larger amounts of many kinds of food than more fortunate nations can produce in addition to their own needs. Certainly this will be the situation during the rest of this year and at least well into next year.

For a few commodities—wheat is the outstanding example—world stocks are relatively large. Transportation would be a greater problem than production. Sugar is an example of a product in a middle position. The world supply is sizable and shipping will be an important factor in the situation. Yet as long as consumer incomes are generally good, the need for sustained high production will continue great.

Most of all, people in the devastated countries will need protective foods in concentrated form from other nations until their own production and distribution of food reach adequate levels. There will be a need for more meats, dairy products, fruits and vegetables than farmers will be able to turn out.

Until world food production returns more nearly to a peacetime pattern, the present great food-producing nations have their work cut out for them. The United States stands high among these nations. I am sure we can count on our farmers to keep producing right up to the limit of their ability. Their performance thus far has been one of the production miracles of this war, and they show every indication of sticking with their war job till it is done. I am equally sure that the food consumers of the United States, once they fully realize what is at stake, will share their supplies with people who need some of our food to live. Maybe this course will mean we will have to continue to keep a curb on our use of some particular foods. We may have to forego for a few extra months some of the feasts we have been promising ourselves. That would be a tiny price to pay for building a foundation of health and stability in the great areas where war has brought disorganization and hunger.

For the long pull—after we go back to the ways of peace—the rôle of food in world stability will be equally vital and even more complex. By then the problem will not be one of correcting the sharp and temporary dislocations of war, but of straightening out long-standing maladjustments.

About two thirds of the world's people make their living by producing food. About two thirds of the world's people have not had enough to eat

even in peacetimes. This unhappy situation applies not only to the farmers and fishermen of undeveloped countries where getting sustenance from the earth or the sea is a tremendous job in itself, but also to the town and city people in the most highly developed countries. There has been, and still is, widespread malnutrition among urban consumers in the same countries where farmers can turn out tremendous production and often suffer from crushing surpluses.

Even in the developed countries, the twenty years between the first and second World Wars were marked by widespread hunger in cities, and poverty on farms. So as we look ahead today to the long pull in the post-war period, it is obvious that we will have to combat many deep-seated forces that helped bring unrest and misery after the first World War.

In planning to make the production and use of food serve the ends of peace, health and happiness for future generations, it is clear at the start that we will need more food than the world ever has produced before. The total population of the world still presses upon the total food supply. Malthus' fears may have proved unfounded in many of the great food-producing countries. For the whole earth his dark prediction still is too close for comfort.

In looking forward to full production, it is necessary to make a clear distinction between developed and undeveloped countries. In undeveloped nations the great majority of people still are engaged in food production and most of them have a difficult time trying to produce enough to support their own families. In the highly developed countries the majority of families get their incomes from industry and trade, and a relatively small number of farm people, through mechanization and other forms of advanced technology, are able to turn out more than enough food for the entire population. The distinction drawn here, of course, is greatly oversimplified. There are large sections of our own country—including much of the South—where more industrialization is needed, and far too many people are trying to make their living on the land.

In undeveloped areas the great problem is to increase food production as quickly as possible. The immediate need is to enable farm families to raise more, so that they themselves can eat better. Along with a stepping up of farm efficiency, greater industrialization should be encouraged so that some people could leave farming for other jobs. Such a shift would raise the level of living for all through greater production of goods and services, and at the same time it would reduce overcrowding on the land.

The highly developed countries have their own specialized set of food and agricultural problems. In these countries, of course, there still is need for agricultural research and education. But no simple remedy such as

sheer increase in food production will be as practicable. Above all there will be a need for an expanding economy, for full nonagricultural employment, for better distribution of incomes, for more mechanization on farms, and for fewer and larger farms. Such a development would mean that even more people than at present would be engaged in turning out non-agricultural goods and services. The smaller numbers of people remaining on farms would turn out a larger total production and live better. Such improvements as better distribution of income would take years and perhaps decades to become fully effective. Meanwhile, special steps could be taken by the governments of the various countries to help low-income families obtain the proper amounts of food and other farm products.

Other great problems are shared in common by both developed and undeveloped countries. There is a tremendous need, for instance, for systems of forestry that would at the same time conserve basic resources and yield better yearly incomes. Integrated programs are needed for developing river basins in nearly every quarter of the globe. Basic steps to conserve soil are as badly needed in sections of the United States which have been farmed for two generations as in those of older countries which have been farmed for fifty.

Conservation is as badly needed in the sea as on land. Fish are a rich source of protein and hold a high place in the diets of many nations. National and international action will be needed to protect the fish supply at its source by preventing the overuse of the chief fishing grounds. Co-operative action also will be needed to find and develop new grounds.

Thus far in talking about both developed and undeveloped countries, I have stressed the need of larger farm production. That is basically true for the world as a whole, but as areas are increasingly developed it is necessary to discriminate more and more sharply between the various kinds of production. Although the great producing countries have at least potential markets for all they can produce if they follow a balanced pattern, it would be quite easy for them to turn out too much of some products, while producing too little of others. It is not necessary to theorize on that score. All we have to do is to look back at the unhappy period between the two World Wars.

New advances in the science of nutrition have made it clearer than ever that there is a great need for much larger production of the so-called protective foods. We need not go into any detailed scientific definitions of these foods. It is enough for our purpose to say that they are valuable for providing vitamins, minerals and proteins, and that the most important of the protective foods are milk, eggs, vegetables and fruits.

On the whole, the protective foods are relatively scarce and expensive. They are perishable and costly to ship. It follows, therefore, that they should be produced as close as possible to the areas where they are going to be used. There are many exceptions to that rule, of course. For instance, it is not yet practicable to introduce large-scale dairying into many of the tropical areas. Until it is, most of the milk consumed there probably will be brought by ships in canned or powdered form. But in general, the logical pattern will be one of producing the protective foods in all parts of the world where there are concentrations of people who need them, and of centering the production of storable foods which ship easily—wheat, for example—in the areas where they can be produced most efficiently.

To sum up, a reasonable pattern for food in the years after the war would call for general increases in efficiency of production everywhere, with special emphasis on over-all volume of production in the undeveloped countries and on greater selectivity of production in the highly developed countries. How can we set about getting from here to there?

I know of no single route. Obviously the most important step will be the establishment and maintenance of world peace and security through approaches of the kind that were set forth at Dumbarton Oaks and will be further explored at San Francisco. Unless we have peace and faith in continued peace, many people in the world will keep on going hungry as nations are scared into heavy armament production and efforts to win agricultural self-sufficiency.

World-wide stability of currencies and broad opportunities for productive international investment also will be needed, along the lines suggested at Bretton Woods.

World trade will have to flow much more freely than in the recent past if all consumers are to be assured of enough food at fair prices, and all farmers of good markets. Progress along the security and monetary lines just mentioned is essential to a healthy and active international trade, but in themselves they will not be enough. Too many barriers to world commerce have been built up in the past—some of them specific, such as high tariffs, quotas and embargoes; others less tangible but no less harmful, such as a general distaste for the idea of importing goods from other countries. It is going to take much hard work and sincere international coöperation to remove or even significantly lower those barriers.

Even with a general expansion of international trade, means for developing the kind of food pattern we are aiming for still would be far from complete. None of the mechanisms mentioned thus far is concerned primarily with either food or farming. The proposed Food and Agriculture

Organization would go a long way toward filling the gap—toward putting an end to hunger and malnutrition and improving the living standards of food producers.

"Proposed" may be almost too thin a term to use in connection with FAO. By now it is very close to being a functioning organization. Adherence of twenty nations is needed to make it a permanent reality. Eighteen nations already have approved the draft constitution prepared by the United Nations Interim Commission on Food and Agriculture. President Roosevelt's recommendation that the United States add its approval and agree to participate now is before Congress.

In a message sent to Congress on March 26, the President said: "The United Nations have already made much progress in setting up an organization for international security. But our collaboration for peace must be on a broader basis than security alone. We must strive to correct the conditions that predispose people toward war or make them the ready tools and victims of aggressors. We shall need also to work together as nations toward achieving freedom from want. Our participation in the Food and Agriculture Organization will be an essential step in this collaboration."

Later in his message the President had this to say: "In becoming a Member of the Food and Agriculture Organization, we will retain complete freedom of action in determining our national agricultural policies. Under its Constitution, the Organization will have no powers of direction or control over any nation. It will recommend agricultural policies and advise nations on their food and agricultural problems, but it will have no power to coerce or command."

The idea of a permanent world organization for food and agriculture grew out of the United Nations conference at Hot Springs nearly two years ago, a meeting which has been called—and with considerable justice—the first of the peace conferences of the second World War; for, if the conference did not consider *terms* of peace, it did consider the *conditions* that would make a lasting peace possible. Shortly after the Hot Springs conference, the Interim Commission was created for the specific purpose of drawing up a plan for a permanent organization. The Interim Commission will expire automatically as soon as the FAO has been established and its first conference has been convened. I hope and believe that the interim group has an extremely brief life expectancy.

Once it is established, FAO will have four major objectives: first, raising the levels of nutrition and standards of living of the people of the participating nations; second, securing improvements in the efficiency of the production of all food and agricultural products; third, bettering the conditions of all rural populations; and, fourth, thus contributing toward an expanding world economy.

It is important to note that the term "agriculture" as used in the proposed constitution is broad enough to include fishing and forestry. Inclusion of the fish may be shaky etymology, but it is solid food policy, and that was the main idea.

How can FAO work toward those ends, especially in view of its lack of executive power over domestic policies of any of the participating governments? Well, under its proposed constitution, the Organization would have four promising avenues for getting things done.

First, FAO would be empowered to compile, analyze, interpret and disseminate information relating to nutrition, food and agriculture.

Second, it would recommend national and international action in those fields.

Third, it would furnish technical assistance at the request of participating governments. This service would include organization of technical missions, in coöperation with the country concerned, to help put recommended policies into practice.

Fourth, FAO would receive periodic reports from member nations on actions taken in line with its recommendations.

Those could be four powerful levers, even in the absence of power to command. For example, in most cases concerning improved methods of production or distribution or of carrying research findings to farm people, FAO's function of making the information available would in itself be of great value. New ways to increase efficiency usually are sought after by all countries; they do not have to be forced on them. Also organization of technical missions could be of great further service in connection with scientific, administrative and educational problems. The field is wide for progress in education and extension methods. Even in the highly developed countries, there is a great lag between a scientific discovery and its general adoption by farmers.

Work of that kind would be particularly helpful to the undeveloped countries. If it were introduced on a sufficiently broad scale, a new insecticide, or an improved variety of seed, or method of applying fertilizer might be enough to increase food production substantially in a relatively short time. FAO can help undeveloped countries to develop these new scientific methods, to build up educational, extension, veterinary, and other technical services to help teach their farmers to put them into use, and to develop credit and coöperative marketing organizations to finance and supply the expanded operators.

Very similar possibilities will exist temporarily in the more developed countries where the war has disorganized agriculture. While the United

Nations Relief and Rehabilitation Administration is carrying the bulk of the emergency load, FAO can be lending valuable assistance with technical information.

FAO's authority to make recommendations, and to ask for reports as to what had or had not been done toward making them effective, would exert a quite considerable moral pressure.

One of the most fruitful of all possibilities, I believe, lies in the compilation and distribution of statistics covering world food production and supplies on the one hand, and world food requirements on the other. As we saw earlier, the world will have need of all the food that can be produced if the production is balanced. You cannot achieve much balance through guesswork. Comprehensive statistics on production, stocks and requirements would for the first time give each of the great producing nations a clear picture of what kind of production was needed and give food-importing nations an idea of what supplies to expect. World trade in food products would tend to become more of an orderly method of providing people with the nutrition they needed, and less of a scramble to get rid of excess supplies of a few heavily produced commodities.

From what I know of United States farmers and farm leaders, I feel sure they would welcome such a development, and I have no reason to doubt that farmers of other great food-producing nations would feel the same way. I also am sure that the farmers of this country will welcome FAO as a new instrument for seeking to expand the entire world economy, including the level of food consumption in this and other countries; and as a medium for bringing to them quickly information on technological advances developed in other countries.

Most important of all, I believe that farsighted farmers have come to realize that FAO can serve their long-term ends by stressing the underlying identity of interest between food producer and food consumer. No mere "cheap food" plan for filling urban stomachs at the expense of farm people could succeed in the long run any better than a plan to keep consumers hungry through scarce, high-priced food.

Better diets for all people and better living for food producers are coordinate objectives of FAO. In the undeveloped countries it is easy to see the identity of interests; the food producers are for the most part the food consumers. Sometimes it is harder to see the identity in countries where one group specializes in food production and another and larger group in urban industry and trade. But the community of interest is there just the same. It is the business of FAO to keep the whole picture clearly in mind at all times and to think in terms of balancing resources against needs.

Thus FAO will have a long, hard road ahead. The present position of most food producers and consumers leaves much to be desired. But the long road can lead to something far better than we have yet known. It is important that the Food and Agriculture Organization get going as soon as possible so that it can take its place with other national and international forces in rebuilding the areas devastated by war and opening the way for the longer uphill climb.

#### REMARKS

CHAIRMAN MORGAN: A very straightforward and easily understood discussion of a difficult subject. Thank you, Mr. Tolley.

Most of us are familiar with the work of Henry Hazlitt, whether we have ever seen him before or not. When you find something in the editorial page of the *New York Times* that is particularly on the point, particularly well expressed, the chances are it was the job of Henry Hazlitt. He is going to talk to us now on "Implications of State Guarantee of Employment". Mr. Hazlitt!

MR. HENRY HAZLITT: I can only say that the chairman's generous remarks were unjust to some of my colleagues, for whom I have a very profound admiration.

## IMPLICATIONS OF STATE GUARANTEE OF EMPLOYMENT

HENRY HAZLITT

*The New York Times*

THE "second Bill of Rights", as embodied in the President's message to Congress on January 11, 1944, opens with "The right to a useful and remunerative job in the industries or shops or farms or mines of the nation". The pending Murray bill, taking this very literally, opens with this declaration of policy: "All Americans able to work and seeking work have the right to useful, remunerative, regular, and full-time employment." "It is the further responsibility of the Federal Government", it continues, "to provide such volume of Federal investment and expenditure as may be needed to assure continuing full employment."

Now as we have here a clear effort to put this new so-called economic bill of rights on exactly the same footing as the Bill of Rights already embodied in the American Constitution, it may be instructive to notice one or two differences. The rights already embodied in the Constitution are all liberties. They are not extensions of the power of government; they are limits and restraints placed upon the power of government. Freedom of speech, freedom of the press, freedom of assembly, freedom of worship mean the freedom to talk, think or act unmolested by the government. They imply, also, that people will be protected by governmental authority against violence or coercion on the part of any one else who may try to prevent them from exercising these rights peaceably.

Now if the right to work were put on the same basis as the freedoms already embodied in the Bill of Rights, it would mean that anyone was at liberty to work on any terms he chose free from coercion on the part either of the government or of any private group. But this is precisely the sort of freedom that the very persons who talk most about the right to work are least inclined to grant. They insist that people shall not work below a legal minimum wage, or even below a so-called "prevailing" wage, even though that may mean that marginal and other workers who could otherwise be employed at a lower rate must go without employment entirely. They insist that other workers cannot work more than forty

hours a week, even if their wage is a high one, unless they are paid half again as much for any additional hours. It makes no difference to them that these workers might be personally willing to work the extra hours at the same hourly rate if they were free to do so. Through the Wage-Hour Act, the federal government has kept down the working week in the nondurable goods industries, even during a so-called total war, to an average of 43.3 hours. It does not seem to be in the least concerned about the Alice-in-Wonderland paradox that at the same time as it was thus artificially restricting man-hours it was asking for a coercive work-or-fight bill to increase man-hours. Finally, it is the persons who talk most about the right to work who are most willing to deny this right to workers who resign from unions. They seem willing, also, to permit the use of violence on the part of strikers to prevent others who wish to do so from peaceably taking the jobs that the strikers have vacated. It is obvious that, however they may think of the right to work, they do not think of it as quite analogous to the freedoms protected in the Bill of Rights which we already have.

What they mean, in fact, is something quite different. By the individual's right to a job they mean that the government itself should guarantee him a job, and that it should do so, if necessary, by itself providing the job. This would be equivalent to translating the right of free speech into a government responsibility to provide the platform, the right of freedom of assembly into government responsibility to provide the hall, the right of freedom of the press into government responsibility for furnishing the paper and type, and the right of freedom of religion into government responsibility for building the church.

Of course there is a government responsibility in this matter which no one denies. The government is responsible for creating or maintaining the conditions under which maximum private employment is possible. It does this by setting up a framework of law and order; by preventing force, fraud and theft; by maintaining a sound and stable currency; by assuring a fair, open field for competition, and by *not* putting obstacles in the way of the fullest operation of a free enterprise system. These functions alone, if governments took them seriously and tried to perform them as well as they could be performed, would require their full time and thought. By thus assuring maximum production and welfare they would incidentally assure the maximum number of productive jobs.

But few of those today who talk of the government's guaranteeing the right to a remunerative job think of a guarantee that stops merely with making possible the conditions for high employment. You never hear them insisting on the competence of the employed persons. You never hear them specifying that those who are employed should produce

undoubted values to the community at least equal to the amount that they are paid. Their insistence is on the employment itself, and not on what it produces.

Under a system of free enterprise, persons are employed not as a favor to *them*, not for the sake of "providing employment", but because those who employ them find their coöperation indispensable. They are wanted because the employer expects them to contribute more to his profits than he pays them in wages. As profits will be low in any line in which relative overproduction occurs, and high in any line in which relative underproduction occurs, there will be a constant tendency for the thousands of different lines of production to seek and maintain a balance among them in terms of consumers' demand. This means that there will be a constant tendency for labor to be employed where it is most needed in terms of the values it produces. This tendency will be heightened because individual firms will compete with each other to pay most to the men with the greatest skills in their respective lines. This force will also act as an incentive to individual workers to develop these higher paid skills. Under conditions of reasonable fluidity, a dynamic equilibrium and high employment are bound to result.

I use the term *high* employment rather than the new political slogan *full* employment, because the latter term, taken seriously, does not make sense. Full employment in America, taken literally, would mean, not 60,000,000 jobs (to cite another fashionable political slogan), but 138,000,000 jobs; for if we are going to ignore all practical considerations in talking of full employment, we may as well make a good job of it.

Now I am not making merely a rhetorical point. Census figures back to 1910 show that, in this whole period, only 40 per cent of our total population has even considered itself, employed or not, to be in the "labor force". It is this 40 per cent of men and women who have supported both themselves and the other 60 per cent, consisting of housewives, children, the aged, the unfortunate, the disabled, and those who were idle from choice or the absence of necessity. It is the mark of an advanced and wealthy civilization that it can do this. In poor countries, backward industrially, as in China and to a lesser extent in Russia, there is a much higher percentage of women and of children who are forced to live by the sweat of their brow. Hitherto we have considered it an advance that we have steadily reduced and all but abolished child labor. Our Social Security Act was in large part designed to end the necessity of a job for those over 65. But along comes the latest crop of reformers with their slogan of 60,000,000 jobs, and insists on putting more than 43 per cent of the population to actual work when over the last forty years only 40 per cent has considered that it could or needed to work for a living.

I have touched on only one of the absurdities in the slogan "full employment". There are others. In an efficient society, men are discharged for disloyalty or incompetence, for making costly errors or for botching work. This is absolutely indispensable if society is to be kept efficient and if it is to achieve maximum production; yet "full employment" makes no allowance for such discharges. In an efficient society, new industries are constantly expanding, but in order that they may expand, some old industries must shrink or die. The slogan "full employment" makes no allowance for this. It apparently does not contemplate even that anybody should be out of work between jobs. So those of us who do not wish to talk mere rhetoric, but wish rather to use phrases that will describe realities and help to make our ideas clear, will be content to talk of high employment. By high employment we mean the absence of mass unemployment. We do not mean a condition in which everyone is employed, but only a condition in which few persons are against their wishes *unemployed*.

Now whenever there is mass unemployment there are reasons for it. It is the duty of the government to study what these reasons are, and, if possible, to remove them. Most often it will be found that these reasons lie in some past or present policy of the government itself. Usually it will be found that there is a lack of equilibrium somewhere—that costs, for example, either in general or at certain key points, have got out of line with prices, so that there is no longer an incentive for producers to turn out the maximum volume of goods.

The apostles of full employment either do not trouble to make this analysis or assume from the beginning that there is only one possible cause of stagnation, which is "lack of purchasing power". They therefore insist upon the need for maintaining "mass purchasing power". The simplest way to do this, of course, would be merely to grind out more money from the printing presses and to pass it around. But this does not appeal to sophisticated minds, who usually propose some more cumbersome and complex way of doing the same thing. We cannot attempt here to analyze all these proposals in detail. It is sufficient to point out, however, that all of them involve the continuance of a budget deficit and an increase in the national debt. They seek to cure the lack of equilibrium, in short, not by reducing swollen costs at this point or that, but by raising prices. There is not time to attempt here to prove that inflation is an evil; I shall have to take it for granted. It is enough to point out here that all these plans at bottom involve an effort to solve the problem of unemployment through some form of inflation.

It is being said more and more often that if private enterprise cannot provide full employment in the post-war period, the government can and will. This statement, it will be noticed, begs the principal question at issue.

It implicitly assumes that if there is heavy unemployment in the post-war period, the fault will be that of private enterprise, and not of any government policy, or set of government policies, that keeps private enterprise from functioning properly. Those who think that the government must guarantee full employment usually assume that a huge program of public works will be drawn up to provide jobs for all those who are not taken care of by private industry.

Now let us see what such a public works program would involve. To work, even at the beginning, in the way that its supporters expect it to work, it would have to be financed by a budget deficit, not by taxes; for if it were paid for currently out of taxes, then a dollar in taxation would be taken away from the public for every dollar spent publicly on roads and dams and bridges. This means that the taxpayers would lose precisely as much purchasing power as the government gained. Because they were deprived of this purchasing power, at least one private job would be destroyed for every public job created. On the other hand, if the roads and dams and bridges were financed by government borrowing, by a deficit, by the creation of additional bank credit or currency, they would lead straight to further inflation.

If we look beyond the monetary veil to the kind of production that is most likely to advance welfare, we find that the public jobs would be inferior to private jobs in two main ways. When work is undertaken, not because it is necessary or demanded for its own sake, but as a means of "providing jobs", it is virtually certain to provide commodities and services that are less urgently needed than those that are provided for their own sake. In so far as we engaged in such public works *at the expense of* private work, therefore—and essentially, I am convinced, that is precisely what in the long run we would do under this policy—we would be reducing the values that it is within our power to produce. But the public jobs would be inferior to private jobs in another way. Private industry first undertakes to make something that is demanded, and then looks for the best men it can find to make it. The government would look at the question the other way round. It would either invent "projects" to provide jobs to fit the particular skills of the men unemployed (in which case the usefulness of a project would become a subordinate consideration), or it would put men to work and pay them a "remunerative wage" regardless of their skill or lack of skill. Under such conditions the so-called "job" becomes merely a disguised dole, for which the recipients contribute no adequate equivalent. Many of the recipients, as our experience with CWA and WPA showed, would recognize this.

Under such a system, productivity and wages cease to be related to each other as they are in private industry. This, of course, in itself reduces the efficiency of government make-work labor. But the level of wages

obtainable from government make-work projects forces up the level of wages that private industry has to pay. Private industry is injured in several ways. On the one hand it is burdened with higher taxes to help pay for this government work. On the other hand its costs of production are forced up by the government wage levels for make-work. For political reasons the government wage levels are certain to be too high in relation to the work done. Private industry will have increasing difficulty, therefore, in meeting its costs, paying its taxes, and still finding a market for its goods at prices that will enable it to earn a reasonable profit and to keep going. Marginal firms will be forced into bankruptcy. This will increase unemployment, which will increase the government make-work program, which will in turn increase the pressure on the private industry remaining, and so on. Private industry will shrink as government industry expands. The final goal of such a system is complete state socialism.

One corollary of a government guarantee of jobs is that the individual will have to take the job that the government offers him. It is not difficult to see how freedom of choice will disappear as such a system grows. It is the primrose path to serfdom.

Thus the government guarantee of jobs, if we follow it out to its logical consequences, leads us to the totalitarian state. It means both the death of liberty and eventual impoverishment.

When we return to a balanced view, we will recognize that "full employment" is impossible, unless it is redefined to mean merely the absence of mass unemployment. But even high employment is not an end in itself. It is a by-product of maximum production and welfare. If we aim solely at full employment, we will not necessarily achieve maximum production. The slave labor in Germany, we should not forget, had full employment, but it did not consider that a cause for rejoicing. If we aim at maximum production and economic welfare, however, we are pretty certain to achieve high employment along with it. And—provided no one is allowed to fall below a minimum relief level—we can once more regard employment as what we always, before the rise of the new slogans, supposed it to be—a means to our ends, and not the end in itself.

## PART V

### ESTABLISHING A STABLE WORLD ORDER

#### INTRODUCTION \*

JAMES T. SHOTWELL, *Presiding*

Professor Emeritus of History of International Relations, Columbia University  
Director, Division of Economics and History, Carnegie Endowment for International Peace

THE consideration of the economic problems confronting us at the end of this war is not and cannot be any longer a purely academic question for the American people. Unless this time we put action behind common sense and study, we shall be the war criminals of the next war, because we shall be responsible for supporting the kind of policy which ends inevitably, or almost inevitably, in conflict. It is, therefore, a matter of urgency that there be straight thinking, and, after straight thinking, straight action, so as to insure the safety as well as the prosperity of our country.

I have only a word to add, because I do not want to infringe upon the time of the speakers. It is this; and it has a bearing upon the problems confronting the nation at the present moment. There is no automatic device that can secure peace and prosperity. All that can be done is to set up pertinent institutions and follow sound policy, so that in the experience of future years we shall move steadily toward that stable future in which war will be an anachronism.

We want, all of us—and I speak as an old-fashioned liberal, for I really belong to the nineteenth century—to have our problems solved so that we can forget about them. Ladies and gentlemen, we shall not be able to forget in the coming years. We are faced with a world which has had fully as much moral and spiritual devastation as material devastation; and every time we see the pictures of the ruined cities of Europe, we must remember that the ruined souls of men are just as devastated as the things we look at in the rubble of stone and iron. With the old structure of civilization dissolving almost before our eyes, it is essential that we proceed toward the consideration of the things to take the place of the old and

\* Opening remarks at the Fifth Session of the Semi-annual Meeting.

the strengthening of those elements in the old which have vitality and promise for the future.

These are the difficult topics with which we shall be dealing this afternoon. They will be the topics, I hope, of many another afternoon throughout the long years before us. We are turning a corner in history; we are passing a great divide in which this nation comes out the most powerful in all the world, especially in its capacity in the industrial field. The responsibility is one that cannot be renounced, and it falls upon every American citizen.

Our afternoon's discussion will be opened by one of my oldest friends and associates, Professor Bonn, who has had long experience at first hand, both on the continent of Europe as a professor in one of the great institutions of learning in Germany, and subsequently in the London School of Economics, and now at Carleton College. He is a friend whose friendship I prize, and whose ideas I esteem. Professor Bonn!

## INTERNATIONAL ECONOMIC RELATIONS BETWEEN GOVERNMENTS: A SOURCE OF WORLD PEACE OR FRICTION

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### I

**D**IRECT economic relations between governments have been rare in the past—at least between independent governments. In the colonial sphere transactions between metropolitan and colonial governments dealing with labor, services, trade and credit have been frequent enough, but they can scarcely be called international, even when colonies had matured and had reached the status of partnership. In the genuinely international field, intergovernment economic relations have generally been limited to assistance in war and to coöperation—sometimes compulsory—arising out of peace treaties. The subsidies which Great Britain had been in the habit of paying to her Allies in the Seven Years' War or in the Napoleonic wars and present-day Lend-Lease operations are instances of the former type; they cover both cash and goods. The Greco-Turkish and the Bulgar-Turkish exchange of populations, and various kinds of war indemnities and reparations, illustrate the latter case. Public opinion has hitherto clamored for the transformation of intergovernment obligations, which always have a strongly political character, into purely commercial arrangements between debtor governments and private creditors. Thus the United States of America tried very hard, though unsuccessfully, after the last war to convert the notes of its associates into French and British government bonds, to be issued to American investors, and Germany's reparation creditors on their part attempted to commercialize their claims by organizing reparation loans, the Dawes and the Young loans.

Intergovernment economic activities are rarely carried out directly by government departments. They are generally managed by special agencies

created for a definite purpose, such as import boards and commissions or government-owned corporations. Some institutions of prime importance in the international field, such as central banks, have been privately owned and have not been under government orders, yet they have acted for governments, and have carried out their commands more willingly than some government-owned corporations. The German Reichsbank under the Weimar Republic was an autonomous privately owned institution; it played a leading rôle in the government's international economic policy, while the railways which were owned by the government were very amenable to private pressure.

## II

International economic relations can be carried out in three different ways: exclusively by private individuals and corporations; exclusively by governments; or by private persons and corporations on the one side and by governments and government institutions on the other side.

Until the outbreak of the last war the bulk of all international transactions—migrations, trade, credit, transportation—was performed by private agencies, subject to government regulations. The prerequisite for a state of affairs in which all these activities are directly handled by governments would be a number of thoroughly socialized states, somewhat on the Russian pattern, who take over all external economic actions from their subjects. Their internal organization need not be communist; the essential feature would be the absence of free external initiative.

It is unlikely, though by no means impossible, that the post-war world will consist exclusively of thoroughly socialized states. It will probably be very mixed. States which permit a large scope for private economic activities will have to live and to trade with other states organized after the Soviet pattern. Many of the latter's external economic activities will not be within other government agencies but with private dealers, persons or corporations. This mixed type has been far more prevalent in the past than is generally recognized. Governments have bought very largely from private producers in foreign countries. Most countries had no heavy industries on a sufficiently large scale from which they could purchase armaments and public utility equipment. Their orders had to go abroad. Nor were the less advanced countries in a position to develop mines, oil fields, transportation systems. They generally sold licenses and concessions to foreign enterprises, on a royalty basis, or on the understanding that after a number of years the enterprise would automatically be theirs. Thus the Suez Canal will belong to the Egyptian government after 1968. Purchases and concessions were frequently closely connected with loans

granted to governments by investors in other countries. The bankers and governments had to be consulted before the loans were issued and reserved to themselves the right to veto credits which they considered inimical to the national interest; but they took no responsibility toward investors. In a very few cases they guaranteed a foreign loan, such as the Austrian loan of 1922, and secured much better terms for the debtors. Yet this guarantee did not imply a loan from one government to another; it was a promise to the investor that his government would pay him if the debtor government defaulted. The guaranteeing government naturally hoped for ultimate reimbursement from the defaulting government. Less spectacular and far more normal than armament contracts, concessions or loans were purchases by governments who owned monopolies (such as tobacco) and needed foreign raw materials, or who bought spare parts abroad for their state railroads. A few fortunate governments enjoyed a raw material monopoly or quasi monopoly and sold the products abroad by government agencies or by contractors. The hallmark of sovereignty with which governments are impregnated was rarely visible in their transactions—until some violent interruption occurred.

### III

The notion that close economic relations between different nations are contributing to peace is of fairly recent origin. For centuries the main factors constituting them—migration, trade, services and loans—have been instruments of war rather than of peace. Until the victory of the Manchester School, international economic intercourse was looked upon as an adjunct to power policies and as such one of the main forces making for war. The earliest modern system of autarchy justified its out-and-out economic isolationism for all nations by the plea that commerce and colonies were the chief causes of international armed conflicts. The free traders demanded abstention of governments from all economic activities, for governments stood for force, and, by applying it to international trade, they destroyed the natural dependence of nations on each other and poisoned their relations. The natural interdependence between industrialized advanced nations and less advanced agricultural countries would make for friendship and coöperation; it would eliminate war, for war would cut off the supplies on which all countries depended and menace their very existence. Peace, free trade and good will among nations would establish a kind of world federation, which respected the political boundaries of all existing states, and made wars for territorial acquisition superfluous, since every nation could buy the goods it needed from its fellow nations with its own national products. The English free traders could rightly assert that the commercial treaty their leader had concluded with France (the

so-called Cobden Treaty) had prevented a war between the two nations. Yet free trade as a universal policy failed. A workable substitute was found in the most favored nation clause which was inserted in nearly all treaties of commerce, and in the acceptance of the gold standard by the leading nations. The gold standard created a kind of world economic unity, without interfering with national sovereignties. Its mechanism tied the several national price levels to one another. Movements of gold or of short-term international funds kept their relation steady. The equilibrium was very delicately balanced; lack of confidence abroad immediately upset it, and if confidence could not be quickly restored by stringent measures generally called "deflation", foreign funds would rapidly be withdrawn, gold would flow out, and the national currency would depreciate. The manipulation of discount rates by privately owned central banks generally was sufficient for smoothing out discrepancies. The fate of the national currency and of national solvency was apparently in the hands of foreign bankers who were in a position to determine it by giving or withdrawing short-term credits. Their decrees, so it seemed, could compel a country to balance its budget, to depress its standard of living, and to hold up social reform until financial equilibrium had been reestablished. After the crises of 1931 in Great Britain international financial relations of this sort were considered a menace to national welfare. They had to be broken by the repudiation of the gold standard. This repudiation separated the national price level from all other price levels; henceforth it could be raised or lowered by arbitrary currency manipulation whenever national interests made it desirable. The decline, by currency manipulation, of internal prices expressed in foreign moneys would immediately increase exports and reduce imports; it would modify suddenly and arbitrarily all existing trade agreements for the benefit of the manipulating nation. Unlike a tariff it would affect not only dutiable commodities but hitherto free imports and exports as well. Both devaluation and especially exchange control made it possible to circumvent if not to eliminate the most favored nation clause. They stood for deliberate discriminatory action. They were far more powerful instruments for adjusting foreign trade arbitrarily than mere tariffs. It is more than doubtful whether the threat to friendly relations implied in the gold standard was not trifling when compared to the animosities aroused by both indiscriminating (devaluation) and discriminating manipulation (exchange control). The currency battles which were fought before the war all the world over with devaluation, stabilization funds, exchange control have made the recovery of a balanced international economic system very difficult. The nations are now attempting to eliminate them by the international Monetary Fund adopted at Bretton Woods.

## IV

Competition between individual traders belonging to different nations has often caused friction, yet this friction never threatened peace until it was intensified by state actions—aggressive tariffs, subsidies or even commercial wars. The battle for concessions among rival firms in nearly every colonial sphere was very fierce. Its bitterness was due, not to capitalism in its later stages having turned monopolist, but to governments supporting the claims of their industrialists for political reasons. Monopolist capitalism as a purely economic institution need not go to war for new markets. Thanks to its monopolistic character, it can adjust prices and output and secure adequate profits. It can always come to terms with foreign rivals and form an international cartel. Such a monopoly is much easier to organize than an international government pool, and a fifty to fifty deal is much more profitable than a war for commercial monopolies. The struggle for concessions has often poisoned the atmosphere, but it has not led to war. The stakes in the Russian-Japanese war were not concessions, but territorial controls. The Moroccan question which centered apparently on equal commercial opportunities for all nations had very nearly caused a war—the real issues were not trade privileges, but the alignment of the Powers in alliances. Once the political implication of the free-trade era had been given up, private economic international activities no longer counteracted aggressive government policies; they joined up with them. They embittered previously existing political conflicts; they rarely created them. The embargo on Serbian porkers, which the Hungarian agrarian interests enforced against Serbia, was not the main cause of Austro-Serbian antagonism, though it naturally strengthened it. Not a single great European war has been caused by economic frictions. Some business groups, especially the armament industries, contributed to worsening the political atmosphere. They speeded up the armament race, and were not averse to creating an international crisis in order to get better contracts.

The most serious causes of friction arising from private international economic relations were loans. They were based on contracts between governments and other public bodies on the one hand and private individuals on the other. Commercial transactions between the government of one country and private citizens in another were generally connected with them. Industrially less advanced countries had to purchase guns or battleships in armament centers; their negotiations were frequently tied up with loan operations. The rivalry of several capitalist groups belonging to different nations over such contracts led to very ugly international clashes. French and German Ambassadors pressed the claims of their national armament industries in Peking, Constantinople and

Athens; they did so as agents of their governments, not as mere salesmen for their national concerns. The struggle was fundamentally political and not economic.

Contracts between governments and private foreign firms contained one particular element of danger. If the government refused to carry out its bargain by not paying for its purchases, by defaulting on its coupons, by cancelling a concession, its creditors generally had no legal remedy. Few governments could be sued by foreigners in their national courts, and verdicts which could be obtained were generally vitiated by patriotic passions. They could, moreover, rarely be executed. Claimants could not enforce judgments in their favor, except in the relatively rare cases where they held negotiable collateral or could seize government assets abroad. They generally sought support from their own national government. They got it sometimes by commercial retaliation—the United States refused to buy Mexican silver after the Mexican government had confiscated the property of American oil companies. In a few evidently bad cases of fraudulent bankruptcy a blockade was enforced, a customs house was seized, or a few marines were landed. These actions, generally disapproved of by public opinion at home, naturally produced a good deal of bad feeling. They never led to war, for the very simple reason that pressure of this sort was never applied to a government which had the slightest chance of offering military resistance. Yet it cannot be denied that these international economic relations, or rather their one-sided disruption, caused a good deal of international unrest. So far loans from one government to another have not been more helpful to international good will. The relations between the several Allied governments were certainly not improved by their credit transactions. When Germany ceased to pay full reparations, all associated governments suspended payments. The United States accepted their suspension as inevitable, but public opinion was greatly incensed. The Johnson Act closed the markets of the United States to the culprits and popular orators enjoyed heaping opprobrium on them. The public at large took very calmly the defaults of Latin American countries, some of which were not due to incapacity to pay. It sometimes almost praised these repudiations as healthy signs of a beginning national liberation movement; for their victims were private investors, while in the former case the sufferer was the American taxpayer—co-sovereign with all United States taxpayers.

## V

Two wars, the Russian Revolution and the Great Depression have led to the governmentalization of many external economic transactions; outside Russia they have so far existed side by side with traditional private

activities. Foreign trade in the Soviet Republics is part of a planned, collectivist economy. It has been used as an instrument for the rapid industrialization of the country. In a state whose economic and political system is run on army principles, that is, carried on by decrees not by discussions between contending interests, conflicts between exporters, who are generally free traders, and importers, who believe in protection, are nonexistent; for, neither the exporters nor the importers have a word to say. Russia's planning is somewhat like war planning, in which the question to be decided is what shall go to the Navy and what to the Army, or whether tanks or airplanes are to have priority.

The Soviets needed at a given moment a definite amount of foreign currency, for purchases abroad; it did not matter whether or not they had to sell part or all of their exports below cost. A collectivist economy can treat all exports and all imports as units. If the value of the latter, measured by labor costs, exceeds the cost-value of exports, it has done well, even if the price secured for all exports does not cover their cost of production—especially if these imported goods could not have been produced at home as rapidly and as well. Russia's potential purchasing power is enormous; it is bound to increase, but her actual purchasing power was and is limited. So far she has not been able to use it for forcing foreign markets to take her own products. She had to accept world prices and had even to go below them in order to acquire foreign exchange. She has secured commercial credits; her bills have been accepted by foreign manufacturers, after having been guaranteed by their governments, and have provided her with means for additional purchases. These transactions have reduced the need for dumping and have diminished a cause of economic conflict. Yet the volume of Russia's external economic activities has been relatively small. If her demands for a six billion dollar loan were refused, she might be in a position to retaliate by large-scale dumping, partly in order to acquire foreign exchange, and partly to show her potential strength in international economic conflict.

## VI

Some services have been taken over *directly* by government agencies. Import and export boards have been established; the central banks, while still privately owned, have assumed the position of government departments.

*Indirect governmentalization*—neither nationalization nor socialization accurately describes the process—of economic activities has perhaps been much more far-reaching. Its chief instrument has been currency manipulation, especially in the shape of more or less complete exchange control.

Import and export boards form an essential part of a collectivist economy; they can be set up without much difficulty within an otherwise capitalist society. Both democratic France and Nazi Germany had organized wheat import boards, which bought wheat abroad at external prices and sold it at home at protected inland prices. Such boards can buy anywhere at world market prices; as long as they do so, they do not violate the most favored nation clause. But they can switch purchases to any market they want to favor. A monopolist import board—especially an import board of a country with large purchasing power—holds a dominant position in the world's markets. Even if it were willing to abide by the most favored nation clause and either go to the cheapest market or divide its total purchases into fair national percentages, its weight is far greater than that of a multiplicity of competing private grain dealers. Similar results can be accomplished under a régime of preferential duties. Great Britain has been able to induce Argentina to buy British goods, irrespective of competition, in return for a quota of British grain and meat imports. The formation of export boards, outside the Russian system, is perhaps more difficult; yet some of them, like the Grain Regulating Board in Argentina, have not done badly. Manufactured goods can be dealt with by cartelization, with or without government aid. A complete system of exchange control can take care of all international transactions. Under it government agencies do not buy or sell goods, but take over, hold and distribute all foreign currencies. They fix the rate at which owners of national currency—citizens or aliens—can exchange it against foreign currencies and direct its sales to particular countries. By blocking its use they determine its purchasing power in the hands of a particular group of foreigners and turn their purchases to selected branches of national goods.

Direct intergovernment activities have been frequent in war (subsidies and Lend-Lease); in peace they have been rather exceptional. The central national banks, whose discount policy directed the flow of stabilization funds on which, under the gold standard, international economic equilibrium depended, were privately owned; yet their policy formed part of their government's economic policy. They generally coöperated with each other in an endeavor to secure world stability. The last instance of this coöperation was the stabilization loan granted by French and the United States banks to the Bank of England in a hopeless endeavor to prevent the crash of the pound sterling. The crisis through which Great Britain had passed at that time had turned her traditional economic internationalism into violent economic nationalism. Its prophet was Lord Keynes, and most of the faithful were recruited from leftist ranks, who

hitherto had prided themselves on their international outlook. The gold standard, they reasoned, had broken down because foreign capitalists had lost faith in British finance on account of unbalanced budgets and had withdrawn their funds. As budgets must occasionally be unbalanced in order to pursue social reform, dependence on foreign credits had to be eliminated, and the gold standard, which had made it possible and necessary, must not be resumed. As the need for these stabilization credits is greater today than it ever has been, an international monetary fund has to be created by direct contributions from all governments, to provide participants with foreign currency. These stabilization loans are short-term loans, not subject to sudden recall. They assume in advance the character of "standstill" agreements between state creditors and state debtors.

Long-term loans have hitherto almost exclusively been provided by private bankers. Ever since the repudiation of the pre-war debt by the Soviet government, default has been endowed with a kind of halo. The literateurs whose interest in economics the Russian Revolution had suddenly awakened have taken up Moscow slogans and have denounced loans given to less advanced nations as the worst form of economic imperialism. Investors were not only defrauded by their debtors, but held up to contempt by their fellow citizens. They can no longer be induced to lend money at reasonable rates, and the rates which would cover their risks would be far too high to be called reasonable. Here again governments may have to come to the rescue. The United States has given ample credit to Latin America through the Export-Import Bank—this might be considered a war measure. But the planned foundation of the International Bank by governments with a capital of \$9.2 billion clearly assumes the need of government guaranteed credits. It is not supposed to lock up its own capital in such ventures; it is to test them and, after inquiry, to guarantee loans made by private institutions. Its rôle is somewhat like that of the financial committee of the League of Nations which inquired into the security of loans to Hungary, Greece, Esthonia and other countries which were taken up by investors on its recommendation; all of them defaulted. As Russia alone wants loans to the amount of \$6 billion, the scope of future finance should be very wide—assuming that confidence can be reestablished.

## VII

An all-round establishment of bulk purchases by state import boards and bulk sales by state export commissions would naturally do away with tariffs, quotas, exchange control and other dearly beloved complexities of modern economic life. The essence of bulk buying is "monopoly"—it in-

volves prohibiting outsiders from entering a market. Home prices will be fixed by the authorities, and any difference between them and external prices will be credited or debited to import boards. Their introduction will eliminate logrolling for tariff making, which no doubt is beneficial. But the center of the struggle will be merely shifted; for the quantity which a board will buy, and the price at which it will dispose of it, have to be determined. Group interests will clash as before. Either boards can work under specific legislation, empowering them to act on their own responsibility within definite limits, or the actual terms—quantity and price—have to be fixed from time to time by governments. In both cases, conflicting interests will fight each other. Haggling over tariff positions with foreign countries will naturally cease, but the issues heretofore settled temporarily by treaties of commerce will remain. Selling countries may be compelled to impose a collectivist organization on their exporters; otherwise monopolist buyers could easily play groups of competitive sellers against each other. A kind of collective interstate bargaining on both sides will become inevitable. Two or more monopolist or semi-monopolist boards, each representing its country, will meet to fix prices and to determine quantities. Their negotiations will be as tempestuous as commercial treaty parleys occasionally have been. Quite a number of separate national buying and selling boards will fight over the same commodity. Each national selling board wants to secure as large a portion of potential imports as possible at as high a price as possible. One of them may rely on a most favored nation clause; another will be willing to accept considerable price reductions—even by selling below costs—its main aim being foreign exchange. A third will stress not so much the cheapness of its products as the purchasing power of its home market; it will not buy from a customer who does not take in return an ample share of its staple products at what it considers reasonable prices. The struggle will attract public attention. A refusal by the United States to buy Argentine beef might be very popular among American cattle men. The preference granted to British woolen imports with which the Argentine government might retaliate would arouse American textile interests. They would try to enlist the support of United States meat consumers and put pressure on the import board or the government. As long as lobbyists have a chance of snatching a share of the national income by harassing public agencies, lobbying in some form or other will survive.

The sale of monopoly goods abroad is easy. Fortunately, there are but few of them; otherwise consumer countries would have to accept the terms laid down by privileged producer countries, which would not improve the international atmosphere. There was great resentment in the United States against the government organized rubber monopoly in British Malaya

and in the Dutch East Indies, even though rubber consumers in Great Britain and Holland had to pay the same prices as the United States competitors. An export monopoly, whether publicly or privately owned, attempts the taxation of foreign consumers for the relief of national taxpayers. At one time export duties on coffee and rubber actually secured these benefits to Brazil; they failed in the long run since the monopoly was not all-embracing.

The formation of private monopoly has generally led to price cutting abroad rather than to price raising—namely, to dumping. Many commodities can nowadays be produced in almost unlimited quantities, and, as far as processed goods are concerned, at declining costs; both agricultural and manufacturing countries have suffered from excess output. Home production could be contracted much more easily by government control than by private cartelization. But governments are bent on maintaining output in order to avoid unemployment and must dump the surplus abroad. This policy has been pursued by most cartels and has led to anti-dumping legislation. In a world system of government controlled foreign trade, dumping does not much matter. Import boards will take over a definite quantity of goods at low dumping prices, and sell them to their consumers at a higher inland price. They will make a handsome profit; their home industries can no longer complain about foreigners pushing down prices. But the quantitative grievance remains. Without foreign imports home producers could supply the entire home market at higher prices, of course, and, as they will point out, employ additional workers. They will fight as passionately for this objective as they have done under a competitive system. When the aim of policy is full employment of all labor and of all existing and potential capital facilities, volume rather than value counts. As long as the volume of goods produced gives full employment, it does not matter much whether or not the total national income exceeds its cost of production. A small surplus will retard the formation of capital at home, but, if population remains stationary or declines, this is of no consequence. Adjustments will, however, by no means be smooth. Underexpanded industries will fight against imports because they want to expand; overexpanded industries will resist contraction because they do not want to dismiss workers. The former will attack dumping because they want to have the entire market to themselves; the latter will practice it as the home market is too small for their output. Internal dissension will be followed by external competition. All countries are exporters as well as importers; all are affected by their rivals' exporting policy. Importing countries may benefit from dumping—they have to pay fewer goods of their own for what they receive. But rival exporting countries suffer from it as they either lose access to a market on which they are un-

willing to dump, or they must sell their goods at unremunerative dumping prices. They will naturally look for weapons with which they can interfere with their competitors' dumping policy. State dumping is, moreover, all-embracing. A private monopoly can dump only a relatively limited number of articles, which it is producing in overabundance. A state board can lump all export goods together, sell some of them at almost nominal prices, and recoup itself for the loss on other items. As long as the combined revenue from all exported goods yields a surplus over their combined costs, the state suffers no loss, especially when the home costs of producing imported goods would have exceeded the loss on exports, which paid for them. Competition between rival state economies can wield sharper weapons than individual competition has hitherto employed.

### VIII

The new economic nationalism of less advanced countries may cause additional friction. They grant licenses and concessions on terms they consider fair and claim the right to cancel them unilaterally when it suits their game. Once foreign business becomes a government affair, very delicate situations are bound to arise. The Soviet government, insisting on equal opportunities with other countries, may claim an oil concession in Arabia. By securing it, it will subject itself to the jurisdiction of another sovereign government. If that government for internal reasons were to cancel the concession in an "unfair" way, all elements of bitter strife would be present. This conflict could not be belittled as a row between a group of rapacious capitalists and an insurgent strangled democracy. Perhaps the matter could be settled by an international court—provided its judgments could be carried out. We may be at the beginning of a policy of real dollar diplomacy, when the United States government will use the dollars of its taxpayers for economic and political purposes. A struggle with other governments using similar means might easily follow.

Governments of the past have often misused their political power; their citizens have also often opposed them with economic resistance. The governments of today wield both economic and political weapons. Whether or not they will use them wisely and avoid friction is a political rather than an economic issue. The organization of the United Nations will, we hope, eliminate war and the fear of war. It will neither equalize the economic strength of its members nor synchronize their development; the stage of social achievement which each nation has reached and the rate of growth—or of contraction—will greatly differ. These changes can be brought about in a peaceful way. Some of them, like rates of population decline or population increase, are due to individualist mass reactions and are little

influenced by government policies; others again, like "industrialization" can be speeded up, nay even be started by deliberate government policies. The policies of one government may unfavorably affect the position of another government. Both may resort to economic pressure methods, and these pressure methods will be more effective than those of the liberal days. It will be much more difficult to whittle down the economic sovereignty of nations than its political counterpart. Governmentalized economic activities need not be directly exercised by the Executive. They can be entrusted to government-owned corporations or government appointed boards or commissions. But these agencies will become impregnated with the same spirit of God-likeness which even republican governments have apparently inherited from their monarchist predecessors. Selling and buying goods, lending and borrowing money will become an emanation of the sovereign will. Those who counteract it will not merely be unfriendly competitors, they may be looked on as national enemies. A boycott of foreign goods by individuals is a different matter from a state boycott. The default on a privately subscribed loan is a misfortune for unwise investors; repudiation by a government of a loan from another government is a "slap in the face" of the taxpayer. I have no implicit faith in the supernatural sagacity of business leaders, but my skepticism on this head does not imply unlimited confidence in the wisdom of governments. I am willing to believe that democracy is generally decent, but I know from experience that it is sometimes dumb. It can easily be misled by those who revel in novelty and mistake excitement for achievement and exaltation for intuition. The separation of business activities from state action was not a bad method for keeping the elements of power apart, and, even though they occasionally joined, it was not futile. In state controlled economics political force and economic power are joined. They form an excellent combination when they are on the right track; they will no longer cancel each other when they are wrong.

The situation will be particularly delicate if one or another of the leading nations abstains wholly or in part from governmentalized external economic activities. At home the United States government seems to believe in the usefulness of a managed economic system; abroad it advocates both freedom and equality of opportunity. It seems disinclined, once the war is over, to go in for bulk purchases or for government organized bulk sales; it is attempting the rescue of the most favored nation régime. It may succeed in maintaining a free foreign trade policy, sheltered by old-fashioned protection at home, within a generally governmentalized world trading practice. The overwhelming strength of the purchasing power of the United States for raw materials, foodstuffs, luxury articles, and highly finished goods will let it profit from the competition of those who want

to furnish the United States market and who want to buy American goods. The competition for the dollar will be so great that credits will have to be opened to those who need them as means for buying American goods. The credit power of the United States for a long time to come will be strong and unique. Thanks to this fact, it can face the economic pressure policies of foreign countries, whether embodied in selling or purchasing agencies or in exchange discrimination. Conflicting trade systems may exist side by side, though from time to time they may clash more violently than old-fashioned régimes have done.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN SHOTWELL: Thank you, Professor Bonn.

Mr. Huntington Gilchrist is also one of my old friends and associates. He appeared at the Peace Conference and worked through the days of the League of Nations at Geneva—and let me say there were some great days there. He was practically in charge of the technical work in the Saar Valley for the Secretariat of the League, and then served on the Mandates Commission; and he stayed at that task through the first eight or nine years of the League's history.

Mr. Gilchrist will speak to you on a problem which he understands well, because of his varied experience. Mr. Gilchrist!

## POLITICAL DISPUTES: DUMBARTON OAKS AND THE EXPERIENCE OF THE LEAGUE OF NATIONS

HUNTINGTON GILCHRIST

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**I**N 1919, the Western World looked to the projected League of Nations to save them from the next war. In 1945 the American people look to the United Nations to accomplish the same end.

The League of Nations Covenant has been compared by some to the Articles of Confederation of 1781, the proposed United Nations Charter to the Federal Constitution of 1787.

The comparison is not very apt. From loose Confederation to structural Union was a major step, whereas the League of Nations and the United Nations are structurally the same.

American membership in the United Nations, and that of all the other great Powers of the day, will give the United Nations greater opportunity to accomplish its main purpose successfully. The largely unfettered political independence of each state, and especially that of the great Powers, however, will permit international relations to continue in the nineteen forties and fifties very much as they did in the nineteen twenties and thirties.

For this reason the experience of the League should prove of special value in forecasting the future.

Considerable emphasis has been placed on the probable need for amendments to the Charter because of imperfections which will remain in it when adopted, particularly as regards the rights of the great Powers in the Organization.

In the old League as in the new, amendments must be approved by each of the member states having a permanent seat on the Council and by a majority of other members. Many amendments were voted by the Assembly but only a few of them—on secondary points—came into force. The chief major change proposed was the Geneva Protocol of 1924. It provided for compulsory arbitration, instead of permitting war under certain circumstances as did the Covenant, and at one time it seemed likely to be adopted. It was finally defeated by British dislike of such extensive compulsory arbitration, the prospect of the more frequent application of sanctions, and the unwillingness of the Dominions to allow a binding international decision as to what is a "domestic question".

This episode tends to prove that even major changes in the San Francisco Charter may over the years become practicable. The same great Powers will retain their veto rights, but political alignments will shift and the will of the community of nations may be able to make itself felt through this process of amendment. Certainly as the world is constituted, however, it is doubtful whether we should want the Charter amended too easily; for example, against the votes of the United States or the United Kingdom or the British Dominions.

Textual amendments to the Covenant were by no means the only or even the most important methods of bringing about changes in the constitutional life of the League of Nations. Certain provisions of the Covenant, including Article 8 (disarmament) and Article 19 (peaceful change), became in fact inoperative because there was no keen desire among member states to carry them out.

The Permanent Court of International Justice did not, as did our Supreme Court, have many opportunities to interpret the Covenant, but one would expect some evolution of the Charter at its hands in the years to come.

Basic relations between member states were also affected by other legal instruments supplementary to the Covenant, such as the Locarno agreements of 1925 and the Kellogg-Briand Pact of Paris which outlawed war in 1928.

Therefore, even though textual amendments to the United Nations Charter should prove too difficult, the facilities for the settlement of disputes and the prevention of war could be found in other ways auxiliary to the Charter.

It should also be anticipated that after the United Nations International Organization has come into existence, important political questions will still be settled by other means. The "old diplomacy", despite the lack of veneration in which it is now held, is after all responsible for settling most international problems. It disposes of many potential disputes before they can be dignified as such and most of its triumphs are not reported in the daily press. We should all welcome the continued success of these "tribal negotiations".

In fact, direct negotiations are encouraged by the Dumbarton Oaks plan in that rather intricate Section A of Chapter VIII, which is entitled, "Pacific Settlement of Disputes". This Section covers roughly the same ground as Articles 11-15 of the Covenant. Action under the Covenant required unanimity of the Council (or Assembly) except that the votes of the parties to the dispute were not to be counted when the Council made its report. Under the Yalta agreement, the Security Council may act by a majority of seven out of eleven votes. The seven votes must

include those of the five permanent members unless one or more of them is a party to the dispute. Under these provisions in both the Covenant and the Charter, the International Organization merely has power to *recommend*.

The League's experience indicates that these articles in the new Charter are likely to be of greater importance than Section B of this Chapter VIII which provides for *action* by the Security Council in the form of sanctions, economic and military.

Under the Covenant, some League member had to start proceedings by asking the Council officially to put a political dispute or question on its agenda. This was usually done by reference to some provision of the Covenant and in the great majority of cases Article 11 was involved, especially paragraph 2, because this was the tactful first step, this paragraph providing that it was the "friendly right of each member" to call "the attention of the . . . Council to any circumstance whatever . . . which threatens to disturb international peace. . . ." The counterpart of this paragraph in the Charter is paragraph 2 of Section A of Chapter VIII.

Under the new Charter, a member in trouble is even more likely to invoke Section A than Section B because it will need the support of only seven members to start proceedings toward the settlement of the dispute, and if one of the members is a party to the dispute, its vote will not be counted. A member will not even need to take the initiative because the new Secretary General will be authorized to take this step—a useful innovation although it should be made clear in the final text that he can place a question on the Agenda under Section A as well as Section B.

As in the past, this approach will be the diplomatic one in the early stages of the call for international intervention. Moreover, the history of the inter-war period need not, as some prophets predict, make us fear that a new war will start with the unexpected obliteration bombing of New York or Moscow by an unknown enemy. Important conflicts have almost always started from relatively small incidents, which can be isolated and settled if there is a will to settle, and overpowering pressure in the background.

It may be of interest to consider what would probably have happened under the Charter if the disputes which arose in the nineteen twenties and thirties had come under its provisions rather than under those of the Covenant.

First, there were the conflicts between small states in which no great Power was particularly concerned. The Council acted under Articles 11, 12 and 15 in the three outstanding cases, those of the Gran Chaco (Paraguay-Bolivia, 1928-35), Leticia (Columbia-Peru, 1933-35) and the Greco-Bulgarian Frontier (1935). It was eminently successful in the last

two of these cases in bringing hostilities to a close and settling the disputes. In the Gran Chaco case, the United Nations Security Council, with its air force contingents and other available and more mobile "fire fighting" equipment, might have been more successful.

Another group of disputes between middle Powers, such as the cases of Vilna (Lithuania-Poland, 1920-27) and Upper Silesia (Poland-Germany, 1921-22), were more important. These cases arose as an aftermath of World War I. Both were referred to the Council under Article 11 and the proceedings of conciliation and mediation resulted favorably for Poland which had an ally, France, in the Council. Under the United Nations Charter, it does not seem likely that the result would have been very different unless the Security Council in the case of hostilities over Vilna had been prepared to act under Section B of Chapter VIII. The veto of France would have prevented it, but if the United States and other disinterested member states had stood firm for justice, France might have given way, having in mind her own possible need of similar protection at some later time.

The most important political disputes which came before the League Council were those between great and small (or middle) Powers because these disputes tested the ability of the League system to protect the rights and interests of the smaller states: Corfu (Greece-Italy, 1923), Mosul (Turkey-Great Britain, 1924-26), Manchukuo (China-Japan, 1931-33), Abyssinia (Abyssinia-Italy, 1935-38), "China Incident" (China-Japan, 1937-38), Finland (Finland-U. S. S. R., 1939). These questions were first considered by the Council under Articles 10, 11, 12, 15 or 17 (or under separate treaty), that is, primarily under the provisions of the Covenant for conciliation and mediation.

It was easier to take final steps under the Covenant against a permanent member of the Council than it will be under the new Charter, because under the Covenant no party to a dispute had a vote in the adoption of a report under Articles 15 or 17 or in the imposition of sanctions under Article 16. On the other hand, it should prove easier for the United Nations than for the League to deal with the earlier phases of disputes because the League under the favorite Article 11 required unanimity even including the votes of interested parties whereas seven out of eleven members of the United Nations Security Council will be able to take decisions. The seven must include all permanent members unless they are parties in interest in a case.

A quick look at some of these cases may be of interest.

The Mosul frontier problem was referred to the League by the treaty which ended Turkish participation in World War I. It was an isolated issue in that it represented one of the final questions which required settle-

ment at the end of a war, but the presence of oil in the area gave it special economic importance. Turkey withdrew from the Council during the last stage of the proceedings and insisted that its vote must be counted by the Council in arriving at the unanimity required by the treaty but the International Court ruled that the votes of the interested parties were not required for the decision. The League sent out two strong neutral commissions of enquiry whose report favoring a major award to Great Britain (representing Iraq) were approved by the League Council and later by treaty between the parties.

Under the United Nations Organization, the procedure and result would probably not have been very different, but the experience underlines the importance of clarity in the drafting of such texts as the new Charter. It is not certain, for instance, whether the Security Council under Section A of Chapter VIII would have the power to *impose* a binding decision or only to *recommend* procedures or methods of adjustment. It would be helpful if the Charter could provide clearly that the Security Council might exercise any jurisdiction conferred upon it by special agreements and if it were to become the practice to include in such agreements more liberal provisions as to voting than may be contained in the Charter itself.

*Corfu* was another relatively isolated incident. As the result of the murder of one of his officers serving on a commission marking the frontier between Albania and Greece, Mussolini bombarded Corfu and demanded large indemnity. Greece appealed both to the League and to the Conference of Ambassadors representing the Powers who were enforcing the treaties of peace. The conflict of jurisdictions played into the hands of Italy. The League was left on the side lines and, although Corfu was evacuated, Greece was forced to pay the indemnity without any legal adjudication of her guilt.

The new Charter should make clearer than Chapter XII of the Dumbarton Oaks text that questions between allies or neutrals, even though they may be connected with the settlement of the war, are subject to the jurisdiction of the United Nations Organization only.

Most instructive of all are those cases in which great Powers came up against the League in their determined efforts at expansion or control at the expense of fellow members of the Organization. All these cases developed between 1931 and 1939, after the world had begun to recover from the exhaustion of war. Perhaps the most abrupt attack was that of the U.S.S.R. on *Finland* in 1939 but by that time the reputation of the League had suffered severely and a far greater conflict was in being throughout Europe. The Council, however, regained some of its lost courage and expelled the Soviet Union.

Under the new Charter, expulsion or suspension of a member requires

the unanimity of the permanent members of the Security Council, and in this case could have been blocked by the U.S.S.R. itself. As a matter of fact, expulsion was effected by seven affirmative votes at a time when the Council consisted of fourteen members. Three members were absent, four abstained. This is perhaps the most striking example of the part played in the League by abstainers, those states, usually small, which were unwilling to take responsibility. It was because of this practice that "unanimity" was obtained more frequently than would have been expected.

Under the new Charter, recommendations on expulsion and on similar important matters must be made by "affirmative vote of seven members including the concurring votes of the permanent members." This will make such decisions more difficult and prevent any disciplinary measure whatever against any of the great Powers. Furthermore, each great Power will continue to have the right to vote on any and every question which comes up before the Security Council and Assembly even if the Council has indicated under Section A of Chapter VIII that such a Power has violated its obligations under the Charter.

Much attention has been given, especially in this country, to the rules in regard to voting in the League and the new United Nations. No complete study, however, appears to have been made of the actual experience on this point in the twenty years of League history including, for instance, the real significance of the unanimity rule in the Council or Assembly, or even of the six votes given to the British Commonwealth in the latter body. It is hoped that such a study, if already made by our Department of State, will be published promptly or, if not, that one will be made under public or private auspices. Such a study should prove useful in the debate on this matter which will doubtless arise later in the country and in the Senate.

Lastly, in our consideration of the disputes before the League, came those two great drives of the nineteen thirties for imperialist expansion by Japan and Italy, both original permanent members of the Council. The League had been building prestige during the twenties, although by the time the U.S.S.R. joined in 1934, Germany and Japan had withdrawn. Both the Chinese-Japanese and the Ethiopian-Italian controversies began as small disputes. Both progressed through the stages of conciliation under Article 11 to formal action under Article 15, and then the Assembly was called in and endorsed the only penalty proposed against Japan in 1933, nonrecognition of the conquest of Manchukuo, and coördinated sanctions against Italy in 1935. In both cases, the great Powers in the end got what they wanted.

It will be recalled that the *Manchukuo* dispute started September 18-19, 1931, between small patrols near Mukden. China appealed to the League

under Article 11, the article requiring unanimity. The Council took up the question within three days, and on September 30 even the Japanese representative voted for a resolution which called for the withdrawal of Japanese troops. Within four days, however, all Chinese towns within a radius of two hundred miles of Mukden had been occupied by Japan. On October 24, Japan alone voted against a Council resolution calling for the withdrawal of its troops by a fixed date. By January 4, 1932, the conquest of Manchuria was complete. Then came investigation through the Lytton Commission and the drawing up of an official report by the Council and the Assembly under Article 15 with final action on February 24, 1933, the Japanese delegation marching out of the assembly hall in a body. Sanctions were considered impracticable although legal nonrecognition was voted. Japan held on safely to Manchukuo which it had conquered while the League talked.

Similar steps would be natural under the new Charter. Under Section A of Chapter VIII, Japan could not have blocked the resolution of October 24, but, as I understand it, the Security Council cannot make *recommendations* which have the decisive character of those provided for by Article 15 of the Covenant and the rôle of the United Nations Assembly is much more restricted. United States and U.S.S.R. membership in the United Nations would give it greater weight, of course, although the United States in fact coöperated with the League in this case almost as a member. The United Nations would not, however, have been able to use its carefully prepared fire brigade because any proposal for action would have been legally blocked by the Japanese vote, Japan having been one of the permanent members of the Council.

As regards procedure and the repercussions of international politics, the League Covenant got its most complete test in the *Abyssinian* case. This started with a frontier fracas in December 1934, involved successively appeals to Articles 11 and 15, with parallel consideration and action under other treaties and at non-League meetings. Ten months later, Italy invaded Abyssinia. The League Council and Assembly promptly declared Italy the aggressor and within six weeks of invasion, on November 18, 1935, sanctions came into operation for the only time in League history. They were limited to economic measures, were far from complete even in that field, and by July 1936 Italy had won the war and sanctions had been withdrawn. Italy remained throughout a member of the League but could not block action taken by other members of the Council and Assembly on the dispute. The other great Powers (France, Great Britain and the U.S.S.R.) used the League irregularly and half-heartedly, were more concerned with the rising Nazi menace in Europe, and Italy's relation to it, than with the fate of Abyssinia and their obligations under the

Covenant. Public opinion in Britain in upsetting the Hoare-Laval deal showed its loyalty to the principles of the Covenant. Small and middle Powers did not take any leadership.

Under the United Nations plan, the early procedure, under Chapter VIII, Section A, would probably not have been different. The fact of United States membership in the Security Council would perhaps have deterred France and Great Britain from ignoring the dispute as at Stresa or attempting to settle it "out of court" at the expense of Abyssinia à la Hoare-Laval. Any effort to prevent Italian troop concentrations, to employ economic sanctions or to use the air force contingents provided for in Chapter VIII, Section B, would have been prevented by Italy's veto, Italy having a permanent seat on the Security Council.

The rôle of the Assembly in both the Manchukuo and Abyssinian cases was important in bringing the public opinion of the world to bear on the steps proposed and taken by the League. Assembly support was invoked by the Council in the final stages of action. In the United Nations, a dispute involving a permanent member will presumably never reach such a final stage, but the Assembly might bring its influence to bear during the earlier periods of investigation, conciliation, etc.

This review of disputes dealt with by the League of Nations does not include any between two great Powers, the most important of all. In fact no such disputes of a sufficiently serious character to threaten the peace were ever submitted to the procedure of the Covenant. The Council did pronounce the reoccupation of the *Rhineland* a violation of the Treaty of Versailles but suggested no action. Hitler's occupation of Austria, the Sudetenland and the rest of Czechoslovakia and his final threat against Poland were handled otherwise. Germany had left the League and direct negotiations alone seemed practicable.

Once a member of the United Nations, Germany would not have been allowed to withdraw, although nothing could have forced her to participate in meetings of the Security Council. Holding a permanent seat, however, she would have been able to block any move by the Security Council to prevent her from just such acts of aggression as she committed, and she could not have been expelled.

From this review of the experience of the League of Nations—the only prior experience the nations of the world have had under a written instrument designated to keep the peace between them—certain conclusions of value to the present stage of the new experiment for international and political stability may be drawn:

1. It will be easier to obtain changes in the Charter at San Francisco than by amendment thereafter. Changes are being proposed by France,

Canada and by certain other Powers. Several of those suggested by Senator Vandenberg are supported by the experience of the League.

2. It is important that there should be greater clarity in the text of Chapter VIII of the new Charter to avoid the possibility of disagreements and delays in reaching decisions as to whether Section A or Section B applies in a given situation. As the rules for voting under each Section will be different, this point is likely to give more trouble than under the League Covenant.

3. To avoid conflicts with other possible jurisdictions it would be advisable for the members to declare in the Charter that it is the supreme law.

4. The important rôle in the settlement of disputes which was played in the League by the Assembly should be made possible in the United Nations. The present text should be revised to make it clear that during the period of enquiry and recommendations, the Assembly may also have jurisdiction on appeal from one of the parties or by reference from the Security Council.

Most of the political disputes which were brought before the League of Nations were on the whole effectively dealt with. Most of them were between small and middle Powers. Justice was upheld and peace maintained. Similar results can be expected under the Charter of the United Nations.

Danger arises only when a dispute involves directly or indirectly a great Power which is determined to have its own way and which has the power to take what it wants. For such disputes, the League of Nations did not provide either justice or peace. Sir Edward Grey said that, if he could have prevailed upon the responsible ministers of the big Powers to have held a meeting at the end of July 1914, World War I could have been prevented. The history of the League and of Munich proves his remark to have been too optimistic or at least too general. Meetings are not enough, useful as they are. By the thorough ventilation which it provided for even the most dangerous type of disputes and the clear indication which it gave as to what justice required, the League machinery however rendered real service.

The importance of complete great Power membership is given great emphasis these days, and properly so. The League suffered from the absence of the United States, and this has been much in mind. In the light of League experience, however, the point can be exaggerated. The League did its most effective work in the Abyssinian case, despite the absence of two of the great Powers from the Council. Far from breaking up, it would probably have succeeded if Great Britain and France had determined to execute the Covenant courageously, promptly and fully. The League

failed when "appeasement", that is, efforts to keep Italy in the united front of the great Powers still remaining in the Council, was tried. Similar conclusions can be drawn from the experience of the League in the Manchukuo and German cases. As with most international organizations, failure resulted from weakness, not from excessive power.

Under the Dumbarton Oaks plan, "appeasement" of a great Power would be inevitable. By comparison with the Covenant, much has been sacrificed to the overwhelming desire for complete great Power membership. This has added strength to the Organization but at the same time the need for strength has been largely eliminated. The possibility of action against any great Power would no longer arise.

It is therefore most important that, in *all* cases involving great Powers, action be started quickly by the Assembly or Security Council under Section A of Chapter VIII. The voting procedure here is easier than under the Covenant, and although the permanent members can block any enforcement action they cannot prevent *investigation* and *recommendations* in regard to disputes to which they are parties. The fact that all the great Powers will be members of the new Organization will lend weight to its recommendations by comparison with those made by the League.

The danger of these great Power disputes, however, should not be minimized. League experience shows that more effective action with respect to them is possible than that which is provided for by the new plan. It is to be hoped that in the drafting of the final Charter, further consideration will be given at San Francisco to this experience. Compromise, not perfection, will be inevitable in the final result, but the Organization must have a broad, not a narrow, framework, one which will permit growth and, later on, remedies for present defects. The new league, moreover, will only maintain justice and peace if, in the practical evolution of this Organization, our government, along with others, uses its power to these ends with the same skill and determination it has demonstrated in the strategy of war.

## REMARKS

CHAIRMAN SHOTWELL: Thank you, Mr. Gilchrist.

Sitting here this afternoon as a retired professor from Columbia, I have a thrilling experience of the importance of academic discipline. We have had, on the one hand, a mass material survey, a thoughtful and critical analysis of the economic problems confronting us, with more homework in the offing than I like to think of in the coming moment, and then history reasserted itself, and to my great satisfaction came off triumphant. We can see the uses of history as well as economics, Dr. Bonn; and we have before us the experience of the past challenging the experiment of today.

Then to show the catholicity of this Academy, we are to have the extreme pleasure of listening to a professor of history, who is also a master of the more difficult art of living among people and understanding them. My friend, Professor Tannenbaum, does not just study books; he lives with people and he does not find them all in the universities. Down in Latin America he slips away from the government officials, who are anxious to have his counsel, to go out among the villages and consult with the peons and learn what life is to those who see it at first hand. His report to us this afternoon on "The Future of the Inter-American System" is based on very authoritative knowledge. Professor Tannenbaum!

PROFESSOR FRANK TANNENBAUM: We have a custom at Columbia that after the first two hours the students get a rest. So I am going to give you a rest; I am going to give you a rest by telling you a story, a completely relevant story, that is also true.

I was traveling on muleback in the mountains of Nayarit. It is a very broken region, very isolated; few people ever get there. Mostly Indian folk live there, and there are a few villages. I arrived on my mule in one of those villages late one afternoon. They said to me, "You come from the outside world; you know what is going on in the world; you have got to tell us the news. You know everything." I don't know how they knew that [laughter], but they said, "You know everything; we don't know anything. Won't you tell us the news?"

I said, "Surely, I will tell you the news"—always glad to make a speech. So that night they gathered in a school house; no chairs, no desks; they all sat on the floor. They brought their dogs and children with them. I made a speech. Being an innocent kind of person, I assumed I made a good speech; they applauded when I was finished. They shook their heads and they applauded. When it was all over, the mayor of the town, a barefooted old man with a straggly beard, walked over to me and shook me by the hand and said, "You will have to forgive us."

I said, "Why do I have to forgive you?"

He said, "We are a very ignorant people."

I said, "Why are you an ignorant people?"

He said, "We don't understand English." [Laughter] The point is, I had spoken in Spanish. [Laughter]

That is merely an indication of the difficulty of communication.

## THE FUTURE OF THE INTER-AMERICAN SYSTEM

FRANK TANNENBAUM

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ALL of us of this generation have lived in an unkindly universe. Our lives have been torn with suffering and tragedy. It has been a world full of evil. The fruits we have garnished have been utterly bitter. War and destruction and death have stalked the earth; the very demon could have sown no greater sorrow nor seared the heart of man with a deeper hate than we of our day have endured. When we gather here to talk of a world reconstructed, we are merely trying to redeem the faith we have in the good life. Of all the peoples in the world, ours is perhaps the most sanguine. We want so little, and have so often shown our readiness to give so much—our goods, our great power, the heroic and gallant lives of our young—just to be allowed to live in peace with the other nations of this world. To live in peace and justice! We must always be aware that our hopes of the future have a background of utter failure. Not only have we greatly suffered; we have greatly failed. It is to redeem our failures of the past that we are now at war; and the war must give us that peace of which we have long dreamed—a peace where war will cease to be an instrument of international policy.

The main purpose of the San Francisco Conference is to devise a system of government to keep the peace by making war impossible—better still, by making it unnecessary. To this conference, the American people bring a great tradition—the equality of the sovereign states and a great experiment—the American commonwealth of nations. So far as this hemisphere is concerned, the idea has universal appeal. Everyone believes in it. Many seem to have believed in it from the very beginning of the American nations. There has always been a sense of identity in the Americas, and a sense of common destiny. The Monroe Doctrine and Bolivar's proposal for an American association of nations are merely different descriptions of the same phenomenon.

The theme that runs through the description of the Americas as a commonwealth of nations is the idea of the juridical equality of states. The idea is one upon which our own nation is based. We long ago decided that Rhode Island is equal to New York, and that Idaho is equal to Texas.

The belief that the small state is equal to the large one has conditioned our thinking and our politics. We have acted on that doctrine not merely internally, but in our policy toward the nations of this hemisphere. We could not think otherwise. We have made Haiti and Santo Domingo equal to the United States. Speaking in 1870, Charles Sumner, in discussing the question of the proposed adhesion of Santo Domingo to the United States, said: "Kindness, beneficence, assistance, aid, help, protection, all that is implied in good neighborhood—these we must give freely, bountifully; for their independence is as precious to them as ours is to us, and it is placed under the safeguard of natural laws which we cannot violate with impunity."

It is no accident that a great and powerful nation like the United States should have voluntarily and as a matter of deliberate choice made the weak and the small in this hemisphere equal with itself. We have always believed that Rhode Island was equal to Texas. When we came to think about our relations with the outside world, we could think in no other way, and we made Haiti and Santo Domingo equal to the United States. The concept of the juridical equality of the states is the foundation stone upon which the Inter-American system has been built. With the juridical equality of states has gone the belief that government rests upon the consent of the governed. In a subtle and deeply ingrained way, the concept of equality embraces not merely the state, but also the individual. Government in this hemisphere means government by and with the consent of the governed. In spite of the many failures in practice, the belief in the equality of the citizen before the law has never been challenged, has never been denied. This equalitarian philosophy seems natural to the Americas. It is the continuation of the experience shared in the conquest, settlement and development of the new world. It is part of the spiritual adventure of varied and migrant peoples, carving a new physical and moral environment for themselves. It is part of the optimism of open spaces and the absence of a stratified society within which one is born and dies. The peculiar American environment—and, I am using the term in a hemispheric sense—has made the idea of equality natural. That was the way life was conceived of and lived, and that was the way the law was written both for the individual and for the state. Representative government is but a corollary of these basic attitudes.

It was, therefore, logical and inevitable that the ideal of law rather than of force should become the ruling instrument in the relations between the nations of this hemisphere. All of the elements of the Inter-American system—common defense against aggression, nonintervention in the internal affairs of one state by another, and, finally, the guarantee of territorial integrity—flow easily and naturally from the original belief in the

equality of the small and the large in this hemisphere. That in essence is peculiar American doctrine.

As far back as 1916, Woodrow Wilson, speaking before the Second Scientific Pan-American Congress, said that one of the ways of America coming into her own will be by "The states of America uniting and guaranteeing to each other, absolute political independence and territorial integrity."

The Chapultepec declaration is, therefore, only a formal acceptance of an older doctrine, and, in fact, the idea goes back even before 1916. Joaquim Nabuco, of Brazil, speaking at the laying of the cornerstone of the Pan American Union Building, said: "These countries, with all possible differences between them, in size and in population, have established their union on the basis of the most absolute equality. Here, the vote of the smallest balances the vote of the greatest." That, I think, is a true description of the Western World. Ours is not only a common hemisphere, ours is also a common destiny. There is a pervasive sense of interdependence and mutual interest in relation to the outside world. Without that, no Inter-American system could have arisen, and if projected could not have survived. It rests upon our common experience in the new world, and in that sense it is indestructible.

This regional pattern of the American nations is neither new nor forced. It is not just a projection of an idea into the future; it is a common experience shared by twenty-one nations for over fifty years. It will continue, whatever universal organization may come out of the San Francisco meeting. Just because it is not artificial as a system, it is not dissoluble, and some place must be found for it, or the very idea of a universal organization will prove unacceptable to the American people. For, the very conception of universal peace which the average American would like to project upon the world would be an extension of the ideas implicit and explicit in the American system—equality, democracy, representative government, nonintervention, territorial integrity. These are what the average American thinks are the essentials for any kind of a permanent and orderly structure upon which the universal peace can be made to rest. The nearer the San Francisco Conference comes to embodying these simple but, to Americans, very deeply effective ideas, the greater their acceptability will prove to be.

The American commonwealth of nations has as its organ the Pan American Union, but, for historical reasons, the Pan American Union has not proved adequate to the many coöperative undertakings which have developed in this hemisphere. For the future, it is essential that the Pan American Union should be strengthened and expanded so as to become a more effective instrumentality. The changes proposed at the

Mexico City conference are important, but they do not go far enough. It would be desirable to make its delegates elective in each nation, as in their own ordinary congress. It will be necessary to give the Pan American Union an independent source of income based on a tax on the international trade and communications in the hemisphere rather than a budget voted annually by the different governments. So recast, the Pan American Union ought to have transferred to it all the numerous agencies of Inter-American coöperation in existence. The Pan American Union is here envisaged as an elective democratic institution, devised for the purpose of dealing with the issues common to the Americas.

The crucial question is the future relationship between this Inter-American system and the International Organization projected at San Francisco. One thing is clear, the Inter-American system of regional government which has grown so slowly and so fruitfully must be integrated with the larger institution, but it must not be weakened. The only safe general rule that can be laid down is that the greatest amount of coöperation, both in planning and in execution, in administrative devices, and in exchange of personnel, should be envisioned; that all policies of a universal character should be worked out in coöperation with the regional system; and that all policies peculiar to the Americas should derive their inspiration from and their execution within the regional system. That is not merely desirable, but essential, for the Americas will not yield the concept of juridical equality of the American states within this hemisphere. After all, that is America's unique contribution to the idea of a peaceful and coöperative world.

The sense of common destiny and unity in this hemisphere is represented by the equal voting power of all of the twenty-one states in the Pan American system. This equality is symbolic of the unity. No one is misled into believing that all of the American states are equal in strength. The relative positions of the various members are not at issue. What is at issue is the common interest of the small and the great in the unity of the hemisphere for those purposes common to all. In fact, in the kind of world in which we live and in the mortal danger in which we recently stood, unity is imperative. Unity cannot be had by establishing invidious political differences.

The problem can perhaps be illustrated by an example from our own history. When Senator Borah inspired the foreign policy of the United States, it did not occur to anyone to suggest that he was trying to advance the interests of the state of Idaho. Many of us disagreed with his ideas about foreign policy. To many it seemed a mistaken and ill-founded description of what was the true American concern with the affairs of the world, but no one doubted that he, too, was concerned about the nation,

and not merely about the state which had sent him to the Senate. The spokesman from the little state spoke for the great nation with the same zeal and devotion as if he were speaking for the largest state in the Union. He spoke for the Union. That was possible only because in our system there are no invidious political differences between the states. Had a system of distinctions between the states been written into the Constitution, the organic unity of the nation could not have developed. The idea of equality between the states is, therefore, the base upon which the concept of unity rests, and without which it could not have grown. Equality between the states makes the whole greater than any of the parts, and makes the interest of the whole the visible concern of all the members of the Union, regardless of their relative positions.

The significant fact about the Inter-American system is that this same equality has been carried over into the international field. The experience of the last fifty years, the remarkable unity of the hemisphere in the face of the dangers of the present war, and the achievements of the Mexico City conference merely emphasize the fact that a sense of common destiny and of a basic common interest is a natural concomitant of equality and could probably not arise without it.

This experience and belief we bring to the forthcoming meeting at San Francisco. The claim, withdrawn the day before yesterday by our State Department, but still, so far as we know, made by Russia, that the United States and Russia take three votes each in the Assembly, in addition to the special voting rights reserved for the Council, challenges the entire scheme of American experience, both internally and in relation to the other nations of this hemisphere. It is a denial of the basic political tradition of the United States and of the Inter-American system. It introduces a new and, in fact, a false—even irrelevant—issue. It raises an invidious political difference without any real substance. It simply is not true that the difference between the United States and Haiti is as three to one, or that the difference between Russia and Bulgaria is as three to one. No one could mistake the power, the prestige, or the significance of a vote by either the United States or Russia, even if it were only just one vote. The relative power of the states is not measurable by the number of votes. If it were, it could not be measured by three votes, or by three thousand votes. The problem brought to the surface is not a real one. It merely falsifies the issue and raises an obstacle to the development of a sense of common ends and purposes. It is bound to make impossible the growth of that unity wherein the little state can speak for the whole as if it were a great state—can speak for the United Nations because in the family of nations it is a nation equal before the law and equal in concern for the destiny of all.

If the system of unequal voting prevails in the San Francisco Conference, then it would not only prove a handicap to the long-run success of any structure built for the United Nations, but it would also endanger the survival of the Inter-American system. For these reasons, the system of plural voting is not and ought not to be acceptable to the American people. I am fully aware of the arguments of realism made in defense of the proposal. But, in the long run, it will prove a poor realism and may well end once again in tragic failure to save man from the unhappy experience of unmitigated violence and almost total annihilation.

## PART VI

### WORLD TRADE ORGANIZATION

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#### INTRODUCTION \*

ELIOT WADSWORTH, *Presiding*

Chairman, Executive Committee, International Chamber of Commerce

OUR subject, for this final session of our two-day conference, is "World Trade Organization". It seems to me that world trade has taken on a new meaning in these latter years. We have found that world trade means more than just selling goods for cash and taking the money, and then going home with the money. We are returning to the meaning of trade as we knew it and used it when the old timers used to load a ship with goods and sail around the Horn, or go down to the West Indies and trade the goods for what they wanted to bring back to sell in New England.

After the war this country will have more goods for sale than any other country in the world and will be more anxious to sell them. Therefore, we must offer our goods to foreign countries and find in those countries goods to bring back that we can use ourselves.

Barter is supposed to be a very bad word among the foreign traders, but we will have to barter in a broad sense with the rest of the world and stop trying to get cash without being willing to take back goods or services. I think we have all reached that definite conclusion. It is a very sound conclusion, one that we hope will lead to a more reasonable development of the foreign trade of this country and world trade as a whole.

Our first speaker is Professor Redvers Opie, Economic Counsellor of the British Embassy, formerly a professor at Harvard University, who will discuss American and British trade policies.

Ladies and gentlemen, it is a great pleasure to introduce Professor Opie.

\* Opening remarks at the Sixth Session of the Semi-annual Meeting.

## HARMONIZING AMERICAN AND BRITISH TRADE POLICIES

REDVERS OPIE

Counsellor and Economic Adviser, British Embassy

THE long-run interests of America and Britain, if properly understood, should preclude the possibility of a clash between their trade policies. If ever natural economic harmony may be said to prevail, it is in international trade, where the interest not only of America and Britain but of all countries lies in reopening the channels and increasing the volume of trade. Rivalry in international as in domestic trade may give the appearance of a clash between particular interests, but policy should be designed to let the general interest triumph over vested particular interests. This is the historical argument for freedom in international trading relations.

Politico-economic organization and policies in each country must condition the concept of freedom in international trade. By and large, the domestic political system must be accepted as a datum in considering what is possible in international trading relations. But a country may, in its own enlightened self-interest, avoid domestic economic policies—for example, general subsidies to production—because of their repercussions on foreign trade. Governments should also recognize that methods adopted in foreign trade may react on domestic economies and produce a kind of politico-economic organization which would not have been sought for its own sake. State-controlled foreign trade is hardly conceivable without the same relation of government to industry at home. The relations of the state to industry in the United States and in Britain will no doubt continue to exhibit differences in detail, but in neither country is a major change in the direction of "totalitarian" organization probable.

There should therefore be no serious problem on this account in harmonizing American and British trade policies. The British government, in its White Paper on Employment Policy, has announced its intention to rely largely on private enterprise in maintaining a high level of employment at home and in restoring the volume of British exports. This is also the declared policy of the United States government.

The long-run prospects for harmonious collaboration between America and Britain are good if post-war policy is determined in conformity with

declared objectives and enlightened self-interest. The objectives that have so far been accepted in Article VII of the Mutual Aid Agreement of February 1942 consist of three guiding principles: the expansion of production and employment, the reduction of tariffs and other barriers to trade, and the elimination of all forms of discrimination in international commerce.

The inclusion of the maintenance of a high level of employment among the objectives is important for two reasons. First, when employment and national income fell in the major industrial countries, international trade languished. During the inter-war years, there was, for example, nearly a perfect correlation between national income in the United States and British exports, more nearly so than the correlation between United Kingdom national income and exports. In 1932 American national income and British exports were both only 50 per cent of the 1929 level.

But the second reason is equally important. Growing unemployment at home sets the stage for the acceptance of legislation to restrict imports. Each country tries desperately to solve its unemployment problem regardless of effects on other countries of the measures adopted, and international trading relations deteriorate to the level of economic warfare.

Public debate in Britain during the war has revealed a certain amount of apprehension lest America is not yet fully seized of the importance attaching to maintaining a high level of employment in every major industrial country, and most of all in America itself. The doubt has led to reluctance in some quarters to trust Britain's future to the successful operation of a multilateral trading system. The gloomy prophets foresee another "great depression" stemming from economic collapse in the United States, and they have a vague vision of a safer alternative to multilateralism by the construction of a bilateralist system radiating out from Britain.

An Englishman in America should feel apologetic for this presumption that we know better than you what is in your own and the world's vital interests. No one who has lived here for the last two or three years can question the emphasis that has been placed on the importance of a high level of employment in American post-war policy, and only the difficulties of disseminating knowledge in wartime can excuse ignorance of the fact in Britain. There may, of course, be honest doubts of your ability to keep your vast economic machine working at a steady rate. But, given your will to try, no alternative to a multilateral system, which rapidly transmits contractionist as well as expansionist adjustments throughout the system, exists as a near rival in promoting the best interests of all. The rest of the world cannot be insulated from the shocks of economic changes in the United States, and the problem of the next generation is to develop, by concerted action, methods of combining stability with progress.

British-American coöperation in leadership to reëstablish a sound, healthy multilateral system must be the hope of the vast majority of competent judges in both countries.

The question for the immediate future is whether the British and American governments can solve their political problems and carry their legislatures and peoples with them in implementing their declared objectives. The danger in each country is that the objective of expanding production and employment may be striven for by methods which conflict with the other two objectives, relating to methods in foreign trade. Public education is necessary at this point to show that unemployment is a world problem. Each country must avoid a doctrinaire interpretation of "full employment" which ignores the unescapable realities of frictional and structural unemployment in a fluid economy. Each country must recognize that measures adopted to increase employment at home should be such as to allow the integration of the domestic economy in a world economy. A structural change in the world as a whole may lead to temporary unemployment in some countries. Social security has an important part to play in alleviating the distress caused by unemployment and thus in cushioning the effects of changes in the world system. Extreme governmental measures to prevent or abolish unemployment might well produce less social welfare at home and abroad than the alternative of more unemployment on the average, greater reliance on social security measures to alleviate the evils of unemployment, and a smaller admixture of state activity in the economic sphere. The test of British and American coöperation will be our success in resisting political pressure for measures to reduce unemployment at home at the cost of exporting it to other countries.

However clearly our two governments may see the long-run objectives, and however harmonious they may be in concerting policies to achieve them, the sea of Anglo-American economic relations is sure to appear to be rough at times. This is likely to be especially the case in the immediate post-war period of transition, when there may be a problem of harmonizing or reconciling actual trade practices with accepted objectives of policy. There is a growing recognition in America that a special British problem will exist in the period of cleaning up the aftermath of war and of liquidating the final installment of the cost of the war. The special problem arises from Britain's ruthless economic mobilization for war. The size of its war effort relative to resources has had far-reaching internal and external effects on Britain's foreign trading position.

Internally, industry has been distorted by the processes of conversion and concentration. Capital in industry as a whole has not been renewed, despite the fact that in some industries plant has been improved. The backlog of capital construction, including new houses, will have to be filled

during the process of reconversion to peacetime production before Britain will be able to resume its normal rôle in economic relations with other countries.

The second and more serious consequence of the war on Britain's post-war position is the decrease in its external economic strength. Only 2 per cent of the available manpower is devoted to exports, yielding a volume of production less than 30 per cent of pre-war production. Imports have also been cut, but essential wartime imports for a highly industrialized island fortress have been considerable, and despite the régime of austerity only 20 per cent could be dispensed with. Exports were cut much more severely and came nowhere near paying for the vitally necessary imports. Up to March 1941, the gap was filled exclusively by the sale of British foreign assets and by incurring foreign indebtedness. This process continued after 1941, but in that year the grand conception of Lend-Lease provided the means of intensifying Britain's war effort without regard to the means of paying for imports. It is not generally understood that Lend-Lease made it possible to cut British exports to the bone in order to divert production to the war effort. This was a deliberate act of policy for the purpose of pooling resources in the interest of the best and greatest war effort. Without Lend-Lease, Britain's war effort would have been less or exports would necessarily have been greater.

Fact can indeed be stranger than fiction. Ill-informed criticism, based on rumor and misconception, has made it appear that Lend-Lease helped to promote British exports instead of making it possible nearly to annihilate them. It augurs well for harmony among the Allies that a United States government department recently repudiated categorically a host of fictions which purported to show that Britain was deriving present or future trading advantages from Lend-Lease.

The destruction of Britain's export trade in itself constitutes a difficult problem for the transition period. But this is not the whole story of the effects of the war on Britain's external position. Both before and after Lend-Lease, neutrals and allies were persuaded to send imports into Britain, to feed the vast war machine, without any immediate prospect of payment. The result was the growth of "sterling balances", that euphemism for war debts. Already these balances approximate \$12 billion, a fearsome amount of unfunded indebtedness for a country that has sold \$4 billion of foreign assets. Unfortunately the deterioration of Britain's external financial position is not yet at an end. War expenditure overseas will continue as long as the war lasts, and probably longer. The total of disinvestment abroad may well exceed \$20 billion before the war is finally

won. Britain alone among the Allies will have a significantly weakened external financial position as a result of the war. Yet the whole British economic system was geared to dependence on imports which were paid for in part by the earnings on foreign assets; and this sudden drastic change will bring a balance of payments problem which is bound to condition British policy and the part which it can play in restoring the international economic system in the immediate post-war years.

The internal and external effects of the war on Britain's foreign trading position are all the more important because of its great dependence on foreign trade. It has been said of the world's greatest trader that it must "export or die". It is more important to recognize that the world's greatest importer must literally "import or die". Exports are important only as the means of paying for imports, and it is common knowledge that the volume of British exports must be increased by 50 per cent above the pre-war level if that balance in the international current accounts is to be achieved which is essential to normal trading relations. This means a fivefold increase of the present volume of exports.

The magnitude of the task from the point of view of internal conversion alone is such that it would be unthinkable to attempt it without controlling guidance by the state of the kind that was necessary to mobilize for war. Whatever our views about the relation of government to industry, experience after the last war indicates that, in the much more difficult circumstances of this war, decontrol must be an orderly process carried out under the vigilant eye of the government. This in no way diminishes the importance of encouraging private industry to solve its own problems without relying on direction or assistance from the government.

The development of a large volume of trade, soundly based, is a mutual interest. Britain's target of a 50 per cent increase over 1938 can be achieved only if world trade increases proportionately. America has an interest in seeing the position restored of the world's greatest, and traditionally the freest, trader. A sympathetic understanding of British problems which arise directly out of the economic and financial sacrifices made in the common war effort is essential if you and we are to shoot at the same target of objectives during the transition period. The problems with which we will be faced will be a mixture of necessities imposed upon us as the after-effects of war and these long-run objectives for which we are striving. Just as you transformed commercial exports into Lend-Lease, so we transformed them into Reciprocal Aid. The grand principle of the pooling of resources which Lend-Lease and Reciprocal Aid represent shelved that part of the financial problem of war involved in financing imports. Each country will have its difficulties in reconstructing the system of payments

for which mutual aid was a temporary and partial substitute. Understanding and forbearance will be necessary in both our countries if the reconstruction is to run smoothly. But the need will be especially great for a sympathetic understanding by America of Britain's special problems. The restoration of Britain's exports and, more generally, of balance in its international accounts presents difficulties, the like of which do not exist in the case of America. By comparison with Britain, the United States in restoring its foreign trade will have great advantages: it has suffered less destruction of export markets; supplies will be more readily available in so far as they are not consumed at home; and it is not under the strain of paying for imports indispensable for the life of the country. For some time after the war America will have greater freedom of action, resulting from greater strength in external finance, than Britain in moving toward agreed ultimate objectives. Only an appreciation of Britain's special difficulties is likely to produce the sympathetic understanding that is essential to harmonious economic relations.

Britain, on its part, must convince America that methods used to solve the transitional difficulties do not unnecessarily discriminate against American interests, and that the processes of unwinding the restrictive wartime system are proceeding as rapidly as possible. American trade policy may be of special significance to Britain in this transition period. There may well be a special problem of Anglo-American competition in foreign trade during this period, arising from the fact that British output for export may take longer to restore than the American. It would be a delicate and difficult matter to control the pace at which friendly rivals entered common markets after the war. Yet we all want to reopen the *permanent* channels of trade, even if temporarily supplies must be from the next best available source, which in many cases will be America. If the permanent channels are not reopened at once because the United States is the main source of supply for the world, readjustments in American production will subsequently be necessary during the process of reconstructing the export trade of other countries. Whether such readjustments will be made will depend largely on American commercial policy. It may be that a slower restoration of markets on a basis likely to be permanent would serve all our interests better than a flood of American exports into impermanent channels, with the need for painful and difficult readjustments later.

The long-run objectives for which we are striving will condition what we will do in the transition period. America has given leadership ever since Mr. Hull's policy, as expressed in the Trade Agreements Act of 1934, valiantly attempted to turn the tide of economic nationalism. There are other aspects of American trade policy which the world will watch with

interest, for example, the use of subsidies to stimulate the export of surplus materials or the conditions attached to the spending of American foreign loans; but the symbolic importance of the tariff in a traditionally protectionist country overshadows everything else. A reduction in the American tariff is important, not only as a direct contribution to increasing the volume of world trade by allowing American exports and imports to flourish together, but also as a means of persuading other countries to tackle their own political problems in getting rid of tariffs and quantitative restrictions on trade. It is no exaggeration to say that the eyes of the world are centered on America for evidence that this country is steadfast in its will to give leadership in advancing the cause of economic liberalism. America has the economic strength to lead. The wise use of that strength would be the best guarantee of harmony between British and American policies.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN WADSWORTH: Thank you, very much, Professor Opie.

I am now happy to introduce our next speaker, Professor Bernard F. Haley, Director of the Office of International Trade Policy, Department of State.

Professor Haley comes from Stanford University. He has been on leave for three years in Washington, first with the OPA, now with the Department of State, and he has come here to speak to us on the policies regarding commodity agreements.

I have great pleasure in introducing Professor Haley.

## UNITED STATES POLICY REGARDING COMMODITY AGREEMENTS

BERNARD F. HALEY

Director, Office of International Trade Policy, Department of State

**F**UNDAMENTAL in all plans for the establishment of a durable peace is the necessity of international collaboration for the maintenance of economic stability and for the achievement of higher levels of real incomes throughout the world. In the development of any general program of international action directed to these ends, attention must be given to the special problems of certain individual commodities of world-wide importance, the conditions of whose production are such that, unless they are given some attention, they may well be, or may become, serious sources of economic maladjustment. Hence it is important that we should make a place in our general program of foreign economic policy for international collaboration with respect to such individual problem commodities, and should insure that neglect of these commodity situations will not endanger the success of our general program directed to the expansion of world trade, the attainment of high levels of employment and income, and the maintenance of economic stability.

International collaboration with respect to a particular commodity problem usually takes the form of a commodity agreement between two or more governments.<sup>1</sup> International collaboration may take the form of a loose type of arrangement between the governments of countries having an important interest in a particular commodity for joint discussion and study of the international problems of that commodity. Examples of such an arrangement are the Rubber Study Group of the Netherlands, United Kingdom and United States governments, and the proposed International Petroleum Agreement between the United Kingdom and the United States. Broadly speaking, the function of commodity arrangements of this type is to provide a convenient and informal means by which the possibilities of promoting greater stability in the conditions of production and trade for a par-

<sup>1</sup> Private international business arrangements of the cartel variety are not considered in this paper.

ticular commodity may be canvassed, opportunities for the future expansion of demand may be explored, and possible anticipated difficulties may in some measure actually be prevented from developing, without quantitative regulation of production and trade necessarily becoming involved at all.

In some cases however, it may be necessary to have recourse to the regulation of international trade in, or production of, a particular commodity under an intergovernmental commodity agreement. Export and import quotas are the most usual means by which international control may be exercised; but prices may be directly fixed, and production controls of various sorts may also be involved. Examples of this restrictive type of commodity agreement are the pre-war arrangements with regard to rubber and sugar, and the present agreement with regard to coffee.

The entire inter-war period from 1919 to 1939 was marked by the growth of commodity control schemes, both national and international. Some of these controls were private in character; others were under government auspices. Several of the controls antedated the economic collapse of 1929, but the advent of the world depression greatly increased their scope and number. Detailed research with respect to the most important commodities made subject to international control schemes shows that the major factors responsible for the spread of commodity controls in this period were active even before the general economic collapse of 1929. They fall under three headings. The first was the rapid rate of technological progress with the resultant effects on supply. Technical progress is broadly interpreted to include such disparate factors as the introduction of the tin dredge, the application of machinery on new, level wheat lands, the use of higher-yield varieties of sugar cane, and the opening up of new low-cost coffee and cotton plantations. The second factor was the growth of economic nationalism and the accompanying desire for national self-sufficiency, which frequently led to the stimulation of high-cost production and the shielding of high-cost producers from foreign competition. A third circumstance was the chronic surplus supply situation in the case of certain commodities which prevailed in the inter-war period as a result of the stimulus to the production of these commodities which occurred in the first World War. This term, "surplus supply situation", is used here to refer to cases in which the rate of production of a commodity is so high, relative to demand, that the whole supply can be disposed of only at prices regarded as ruinously low. The term "surplus supply" should not, therefore, be taken to imply that there necessarily exists an actual stockpile of abnormal size, although the latter may quite promptly come into existence if a price support policy is put into effect.

There seems no good reason to suppose that, following the present war, the impact of technology in revolutionizing raw commodity production will be less intense than in the preceding quarter-century; though, granted high levels of industrial production and employment, the consequences of this expanding production upon prices may be less drastic than it was in the depression decade following 1929. Neither is it likely that governmental intervention on a national basis will automatically come to an end with the conclusion of hostilities. Furthermore, it seems reasonably clear that the war itself will give rise to a number of additional problems of adjustment in raw-material production, arising out of the wartime shifts in the international production pattern and the stimulus to the development of new productive capacity that has occurred. For example, the nations that have collaborated in fighting the war against the Axis Powers, shut off from their normal sources of supply of many items, have greatly expanded their own output of those products that formerly were obtained from enemy or enemy-occupied territories. A similar wartime expansion of many commodities has no doubt also occurred within the enemy areas. When the war ends and old sources of supply are reopened, there may be large surpluses of these commodities, in spite of the high level of world demand that should also prevail. A surplus supply situation is also likely to arise in cases among some of the metals, the production of which has been expanded many times over to meet a war demand that has been much heavier than normal peacetime requirements.

It follows that, in the case of a number of important primary commodities, we are likely to have a surplus supply situation with which to deal after the present World War is over, or in some cases even before the end of the war. In so far as we are successful in obtaining the collaboration of other nations in a broad program directed to the expansion of international trade and investment and the maintenance of high levels of production in the great industrial nations, the magnitude of such surpluses should be substantially reduced. Certainly the indirect benefits of such a broad program in stimulating the demand for raw materials should make an important contribution toward easing the problems of primary producers. Yet there are almost certain to be some commodities, particularly primary products, that will continue in surplus supply even though we may be successful in our efforts directed to the reduction of trade barriers and to the attainment of high levels of industrial production. There will be a residual of individual commodity problems which will have to be dealt with by means of international collaboration and in some cases by commodity agreements.

Commodities that are likely to continue in surplus supply for a long time, in the absence of positive government action, are in the main com-

modities the supply of which is relatively unresponsive to changes in price. Even though the price may decline greatly, the producers do not quickly contract their output. Such commodities are also, by an unfortunate coincidence, likely to be the sort of commodities for which the demand is relatively inelastic. Even though the price may decline substantially, the quantity taken off the market increases relatively slightly; the supply remains unabsorbed except at ruinously low prices. Under such circumstances, which are in general the circumstances characteristic of many primary products, a surplus supply situation is not self-correcting—or, in so far as it is self-correcting, the suffering involved in the process for the producers of the commodity is likely to be so distressing that nations are unwilling or unable to permit the "natural" process of readjustment of supply to demand to proceed.

If the commodity characterized by such a chronic surplus supply situation happens to be an important one in the economic life of a nation, as is frequently the case, then the situation presents a number of serious problems for other nations as well. In the first place, the great decrease in price for the commodity is likely to create a chronic depression among the producers of the commodity, reducing their purchasing power, and in fact the ability of their nation to buy abroad, and thus also reducing its demand for the products of other countries. Such a situation may thus contribute to undermining efforts to maintain high levels of employment and production generally.

In the second place, the government of the country producing such a commodity may find itself compelled to buttress the position of its producers of the commodity by a price support program, by the reservation of domestic and colonial markets for its own producers, and other unilateral methods of domestic relief. If there are many commodities in surplus supply in the post-war period, such unilateral action by a number of different countries would make it extremely difficult to work out successfully the multilateral arrangements for the reduction of trade barriers and the elimination of discriminations that are so much to be desired. Properly conceived and executed international commodity agreements would enhance the chances for success of the general program for the relaxation of trade barriers.

It is true that experience with past international commodity agreements has been such as would cast some doubt upon the possibilities of reconciling the characteristic methods of international commodity agreements with the requirements of a general program for the all-around reduction of trade barriers or, indeed, of any broad program for expansion of the world economy. The constructive economic purposes which commodity agreements might have served in correcting the basic causes of maladjustment in the industry were often lost sight of in the urgency

of providing immediate relief for the producers of the distressed commodity, or in merely satisfying the producers' desire for higher prices. Generally speaking, international commodity agreements in the past have been largely concerned with developing effective means for restricting international trade or production in order to provide, at a minimum, a tolerable basis for survival of all the national producer groups concerned, pending a change for the better in the industry's economic fortunes. In some cases, the control schemes went far beyond this minimum objective and—whether by original design or by a gradual process of yielding to the temptation to exact higher prices—turned into instruments of monopolistic abuse. In either case, however, the emphasis in past regulation schemes has been on the restrictive aspects of such agreements.

It should be recognized, however, that most of the commodity agreements in the past have been agreements between the governments of producing countries. Consuming countries have seldom, if ever, been adequately represented. Furthermore the emphasis has been upon the restriction of output and the maintenance of prices, and little effort has been made under the agreements to remove the basic causes of the maladjustment of supply and demand.

It is evident, then, that, in spite of the expansion of world trade that we hope to achieve, there are likely to be a number of important commodities, particularly primary products, that will be in chronic surplus supply; and that intergovernmental collaboration with regard to such situations is desirable if high levels of employment and production are to be generally maintained and if multilateral action directed to the reduction of trade barriers and the elimination of discriminations is to be successful. It is also to be noted that past commodity agreements of a restrictive variety have in important respects been defective. The use of commodity agreements in the post-war period should conform to certain specified requirements, designed to insure that their effects will be remedial and their restrictive features will be formulated with a view to the public interest.

The emphasis in making corrective adjustments should be first upon the maximum possible stimulation of demand, and only last upon a curtailment of production and trade. Although it offers serious difficulties, concerted action to find new uses or to stimulate demand in existing uses for a commodity in surplus supply is almost certain to be a less painful solution than the drastic reallocation of resources which would be called for if the problem is attacked primarily from the supply side. If the attempt to stimulate demand proves inadequate and the development of burdensome surpluses threatens to lead to economic distress and possibly to unilateral action by the producing countries, then a reallocation of resources should take place. An intergovernmental arrangement partici-

pated in by consuming and producing countries, and encompassing financial and other aids to facilitate the readjustment, may induce the affected countries to liquidate extramarginal capacity. In such cases, measures temporarily setting production or export quotas or allocating markets may be a necessary means of easing the transition for the countries most affected.

Administration of the requirements to which any such international commodity agreement should conform should be entrusted to an international economic organization which should have the appropriate research, consultative, policy-recommending and administrative functions necessary for the integration of policy with regard to commodity agreements into the broader framework of international economic collaboration.

Such an international economic organization, once it is established, should see to it that international commodity agreements between the member governments conform to the following requirements:

1. That no international commodity arrangement involving the limitation of production or exports or allocating markets should be established until after (a) an investigation of the root causes of the problem which gave rise to the proposal; (b) determination that a burdensome surplus has developed or threatens to develop; (c) determination that the conditions cannot be corrected by the operation of normal market forces; (d) formulation of a program of adjustment believed to be adequate to insure substantial progress toward solution of the problem within the time limits of the arrangement.

2. That any international commodity agreement which is adopted should operate in accordance with the following principles: (a) it should be open to accession by any interested country; (b) in any such arrangement the countries adhering thereto which are largely dependent for consumption on imports of the commodity should have together a voice equal to those largely interested in obtaining export markets for their production of the commodity; (c) in any such agreement provision should be made, whether through the maintenance of reserve stocks or otherwise, for assuring the availability of supplies adequate at all times for world consumption requirements at reasonable prices; (d) provision should be made for insuring that there are increasing opportunities for supplying world requirements from countries able to supply such requirements most effectively.

3. And, finally, that an international commodity arrangement should remain in effect for a limited term, such as five years or less. Renewal should be conditioned upon a prior study and public report as to the manner in which it has conformed to these principles and as to progress that has been made in eliminating the underlying problem.

Without entering upon a detailed examination of each of these principles, attention may be called especially to those provisions which place a joint responsibility upon the parties to an international commodity agreement for developing an acceptable program for removing the basic maladjustments in the industry in so far as the causes for such maladjustments can be said to lie within the industry itself.

In some cases the readjustment of the industry might require the reallocation of resources and the relocation of producers and workers in particular producing areas. To effect these shifts, measures of technological and financial assistance may be needed to enable countries to establish new industries or expand old ones, to resettle and reëquip agricultural producers for the cultivation of commodities promising better incomes, and to expand basic resources, such as transportation and electricity, for the development of industry and agriculture. The preparation and negotiation of the details of such programs would unquestionably be a matter of considerable complexity, in which national and international agencies, such as the proposed Organization for Food and Agriculture and the proposed International Bank for Reconstruction and Development, might be expected to participate.

In other cases it might be found that the requirement of a program to remove the basic causes of maladjustment in the industry could be substantially satisfied by agreement to limit or eliminate various national measures to support commodity prices and the incomes of primary producers, such as crop loans, guaranteed prices, export subsidies, benefit payments to producers, import restrictions, and preferential trade arrangements. Such policies frequently protect high-cost production and thus limit world markets for the products of more efficient producers. In this connection it should be pointed out that production or income subsidies to producers in importing countries tend in the same manner as export subsidies to increase production relative to demand and thus to depress world markets. Importing countries must, therefore, share with exporting countries the responsibility of bringing about a better balance of world production and consumption. It is quite possible that in some instances, particularly where world demand for the commodity shows a normal secular rate of growth, international agreements to limit or reduce subsidies, import restrictions and preferences would suffice to ease the problem satisfactorily and thus make other steps unnecessary.

In general the basic objectives of our policy with regard to international agreements as to commodities in chronic surplus supply are as follows: (a) to enable countries to find solutions to particular commodity problems without resorting to unilateral action that tends to shift the burden of their problems to other countries and thus provokes retaliatory measures

and economic warfare; (b) to prevent or to alleviate the serious economic and political problems which may arise when, owing to the difficulties of finding alternative employment, production adjustments cannot be effected in a reasonable time by the free play of market forces; (c) to provide a period of transition which, with the assistance of such national or international measures as may be appropriate, will afford opportunities for the orderly solution of particular commodity problems by agreement between the participating governments upon a program of over-all economic expansion and adjustment designed to promote a shift of resources and manpower out of overexpanded industries into new and productive occupations.

A proper function of international commodity agreements of this type should be to provide governments with facilities for reconciling their economic policies in respect of seriously depressed branches of primary production with the broad requirements of an over-all program of international economic expansion. Their purpose should be to deal with cases of actual or imminent international economic maladjustment of a serious nature. It is not intended that this form of international economic co-operation should be deliberately fostered as a permanent method of organizing international production. This, however, is not necessarily to say that there will be no need for maintaining a permanent international organization to deal with such commodity problems; even under the most favorable conditions of expanding economy that may be reasonably presupposed, there would presumably still be individual cases of maladjustment serious enough to call for specific action in this field.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN WADSWORTH: Thank you, very much, Professor Haley. I am now going to introduce our next speaker whose name is well known to all of us as the author of the Ruml Plan. It was a plan which sought more or less to achieve the impossible—to make the payment of income taxes painless or, should I say, less painful. It has tended to keep a great many income taxpayers out of debt, which I understand was its fundamental objective.

Mr. Beardsley Ruml is Chairman of the Federal Reserve Bank of New York, Treasurer of R. H. Macy & Company, and he will speak on the subject of "The Protection of Individual Enterprise". Mr. Ruml!

## THE PROTECTION OF INDIVIDUAL ENTERPRISE

BEARDSLEY RUMML

Chairman, Federal Reserve Bank of New York

Treasurer, R. H. Macy & Co., Inc.

THE subject assigned to me by your Program Committee for discussion this evening is "The Protection of Individual Enterprise".

I take it for granted that the protection of individual enterprise is not an end in itself, and that our interest in its protection stems from a profound conviction that private enterprise is a bulwark of human freedom. Our purpose is the enlargement of the area of human freedom, and we believe that private enterprise is one and an important means to that end. Accordingly, we must be interested in the circumstances whereby private enterprise can be preserved and its area extended.

### I

Individual enterprise, as we know it, is inextricably bound up with profits, and the future of individual enterprise is intelligible only if we examine in some detail the outlook for profits in our society.

For some reason, it has become indelicate to refer to profits in public, except perhaps to deplore the fact that they seem to be necessary for the propagation of business enterprise, or to imply that the activity of profit making is slightly piratical, to say the least.

We have also come to think of profit almost exclusively as an inducement that causes savings to flow into investment, and as a determining factor as to what productive enterprises will be established and to what extent. The time has come for a new and different, though not an inconsistent, point of view toward profits and profit makers, since, by all odds, the most important energizer of private enterprise is profit, the experience of profit, and the prospect of profit.

Profit is not the only motive which brings enterprise into action. Business activity is released and directed by all the forces that cause men to act: loyalty, vanity, restlessness and love of achievement. These personal drives become of great significance in understanding the reasons for any particular business decision. But so far as private enterprise is concerned, they are essentially secondary, since, although they are the motives to the individual, they may or may not be relevant to the business of business.

The underlying and unifying force, releasing all others and giving meaning to all else, is profit. It is not merely the spark plug, it is the spark within the plug.

Profit is more than a mere energizer of private enterprise, it is a directive energizer. It sets the test of success in the application of effort. It is both stimulus and response. It is not what business is for, it is not the justification of business activity; but it is so important in getting business properly done that it is sometimes mistakenly taken to be the end and purpose of business. We can properly deny to profits the exalted position of being the end and purpose of business, and at the same time recognize the crucial importance of profits in releasing and guiding the powers residing in private enterprise.

Profit is the excess of selling price over costs of every kind. If a thing cannot be sold, there can be no profit. Nor will there be a profit unless the selling price is greater than the total cost of getting the article into the purchaser's hands.

This familiar relationship between selling price and costs, which results in profit, causes profit to serve two exceedingly important purposes. In the first place, profits are a test of whether the thing that is made is wanted, and whether enough people want it at the price at which it is offered more than they want something else at some other price. And when I talk about the making of things, I am talking about both goods and services; and I think we must all agree that a great expansion of services is indispensable for high employment after the war. If the people do not want these things, there will be insufficient sales and insufficient profits—or none at all.

The necessity of making things which must sell directs the energies of private enterprise into the channels of making things which people want more than they want something else. It stops business from trying to do things that get no public response and that meet no public need. And since most things compete with other things as objects of human desire, and since they compete both in desirability and in price, the managers of business are forced to seek a right price for the things they have to sell.

In the second place, profits serve as a check on costs, and hence as a means of reducing wastes of all kinds. The costs must be brought below the price at which the thing will sell in adequate quantities, and the lower the cost the greater the profit and the greater the possibility of wider use.

The beneficial pressure of profit on cost reduction comes from giving an impulse to efficiency and ingenuity; it provides an incentive for the discovery of new processes and new machines for the elimination of waste motion and unneeded services. This kind of cost reduction results in the use of less human effort and less material in the producing and selling

of a given article. Economy in the use of our resources of men and materials, while at the same time maintaining the same or a higher standard of living, serves a valuable social purpose, and the pressure for profits is the principal influence to this end.

Profits, therefore, serve a double purpose: first, they direct the activities of business into channels which meet a public response; second, they provide a pressure for ingenuity and efficiency. Profits are needed for these two purposes, whether the profits, after they are made, are privately owned or not. The ownership of profits is a separate question from that of the usefulness of profits as a directive energizer of enterprise. An enterprise of the business type, producing goods and services for use, whether it be publicly, privately or coöperatively owned, requires the profit motive and profit statement to make it work and work soundly.

How high can profits properly be? If the goods are sold squarely and priced competitively, if the costs of producing them are governed by intelligence and by the use of fair and legal methods, if there is no direct or indirect public subsidy that makes prices higher or costs lower than the managers of the business themselves could make them, then the higher the profits the better the interests of all are served. A special case exists in the exploitation of privately owned natural resources, where the need of conservation for the benefit of future generations should be a reasonable limiting factor on present profits. But, even in this special case, given a public policy and law as regards conservation, the higher the profits the better.

Public opinion today is skeptical of accepting the highest obtainable profit as a desirable social standard. This skepticism is the result of practices which have undermined the prestige of business.

These practices are: improper representation and misbranding in selling; controlled and noncompetitive pricing; exploitation of labor; adulteration of quality; the receipt of subsidies in the form of franchises, tariffs, tax exemptions, and grants of the public domain; and, finally, undue monopoly privileges in the use of patents, trade-marks and copyrights.

When profits are made (1) within the law, (2) under competitive enterprise, (3) without public subsidy, or (4) without public protection of exclusivity, the higher the profits the greater the honor to the profit maker. Under these circumstances, there should be no limitation on the amount of profits which a business can make, because the greater the profits the greater the service.

Profit, as a directive energizer of business, deserves more respect than it is sometimes accorded. It would be difficult indeed to find a substitute that would serve the public welfare so well.

## II

A healthy business depends on profits, and private enterprise depends on health in business.

We have seen the way that profits act as a directive energizer for business enterprise, getting the things produced that the people want, and imposing pressure for efficiency in the use of human effort and materials. Now, as we consider profits for business as a whole, we come to a new set of problems, problems which relate to the adequacy of purchasing demand as a whole. These problems center in the nature of purchasing power and of its movement in the national community, since it is only through the flow of purchasing power that the nourishment of business, by business profits, can be accomplished.

A business can be rich and still be sick—profitless. So also, business as a whole can be rich and still be unhealthy. The balance sheet of business may show enormous assets and modest liabilities, and still business may not be doing the work that it is the business of business to do. The work of private enterprise is recorded in the business transactions that preceded and that will follow the balance sheet cross-section picture.

If there are no transactions, there will be no profits. If there are insufficient transactions, there will be insufficient profits. Large numbers of transactions do not, of course, guarantee profits, but they are a necessary first condition in providing a situation in which profits can be made.

The undernourishment of business comes from insufficient profits and prospects of profits. When this condition applies only to a particular business, we can regretfully charge the disorder to the requirements of survival in a competitive universe. But when business generally is undernourished for lack of profits, we must look to the environment generally. In such a situation the presumption is that the environment is not favorable to business survival.

A sick business serves the cause of freedom badly. In a sick business, stockholders, employees, vendors and customers, all are in the hands of a management whose objective is survival and whose motivation is fear. In such a business, there is no "long pull", and short-run policies dictate the decisions of the manager. The sick business has no freedom and it can give no freedom. It can be victimized in every business transaction, and it protects itself as best it can. Just as for the individual person adequate nourishment is a favorable foundation for a sound mind, so also a thriving business is a necessary prerequisite to sound business statesmanship.

The disorder of depression, which causes sickness in business, must be cured if private business is to survive. An adequate flow of purchasing demand must be maintained as a necessary condition for profits and for

business health; and business health is necessary if we expect private business enterprise to be effective as an instrument for human freedom.

### III

Although profits serve in many ways to make the business system function wholesomely, in recent years there has been a change in the structure of business which has seriously affected the usefulness of profit as a directive energizer.

Private enterprise today is increasingly passing into the hands of the higher paid employees, workers for wages who have the administrative responsibility for their enterprises. Unless they are substantial shareholders, their interest in profit is, beyond a certain point, largely academic. To be sure, they want their company to survive, and they want to be well regarded by their colleagues and by their competitors. But effortful enterprise beyond this minimum required for security and prestige is meaningless. This is bad for enterprise, and a danger to the enterprise system. Let us see how this situation comes about and what, if anything, can be done to correct it.

Profit is what remains after the expenses of a business are deducted from its sales. These expenses include the cost of materials, wages and bonuses, taxes, rents, and interest on bonds. From this profit, dividends may be distributed as a return to the stockholders on their invested capital, and a part of the profit may or may not be shared with a large or small proportion of the employees. In most cases the amount of the shared profit is small as compared with wage and salary disbursements.

There then remains a *residual profit* that attaches to the common stock for the benefit of the common stockholders. Since, today, an increasingly large proportion of the stockholders of enterprise make no contribution to its success, other than permitting their money to remain invested in it, this *residual profit* is increasingly less helpful in strengthening private enterprise. It is, of course, true that the owners of the common stock of a company have money at risk and, therefore, are entitled to a contingent return, depending on the success of the company. They also are entitled to have adequate reserves set up for depreciation, depletion, obsolescence, and other conditions that may reduce the value of assets of all kinds. The contingent return on the common stock can be limited and the appropriate reserves can be defined, and both should be given a position prior to *residual profit* as we have conceived it.

The *residual profit* should go exclusively to the one or two individuals whose initiative and judgment are decisive for the success of a business; and, under ordinary conditions, the *residual profit* should be large in comparison with their regular compensation. In this way, profit could

be restored to one of its most important functions in providing an aggressive, efficient and serviceable system of private individual enterprise.

#### IV

The dangers to individual enterprise arise in large measure from neglect and abuse of the profit system. The protection of individual enterprise will be substantially accomplished if the profit system is rehabilitated.

This means that purchasing power in the hands of the people be in proportion to our capacity to produce; that labor and management cooperate in getting wages up and costs down; that taxes be assessed on incomes and not on profits; that the residual profits of enterprise go to the enterprisers; that selling prices be established by competition; that misbranding and adulteration be outlawed; and, finally, that we all recognize that public regulation in the public interest is necessary if public subsidy or grant of monopoly has been received.

So I conclude by repeating, the protection of individual enterprise requires the rehabilitation of the profit system. And this rehabilitation should be an agreeable task for enterprisers and productive of great good for the people as a whole.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN WADSWORTH: I think it is not difficult to tie that speech in with the general reconstruction of world trade, because such trade must operate on a basis which enables those who carry it on to make a profit.

Thank you, Mr. Rum!

I now take great pleasure in introducing the Dean of the Harvard Law School, Mr. James M. Landis, who has served in a number of public positions. He was a member of the Federal Trade Commission, a member of the Securities and Exchange Commission, and its chairman in the trying years from 1935 to 1937. He served in the United States Office of Civilian Defense in the early days of the war, when we were thinking about the possibility of our being bombed or attacked at home. He was also Director of the American Economic and Operations Mission to the Middle East. He has just returned from Egypt and has resumed his duties as Dean of the Harvard Law School.

It is a great pleasure to introduce Dean Landis!

## RESTORING WORLD TRADE

JAMES M. LANDIS

Dean, Law School, Harvard University

Director of the American Economic Mission to the Middle East

THE desire to increase exports is voiced in the United States hardly less vociferously than in England. Though it does not possess the same intensity as lies beneath England's post-war slogan of "export or die", its insistence goes far beyond the casual manufacturer. It appears in the organization of new foreign trade committees in numerous trade associations, in the active advertising of manufacturers both domestically and abroad, and in the more than normal vociferousness of export associations. To a degree that has never characterized American business before, we are foreign trade conscious.

Many factors are responsible for this attitude. The productivity of American business has been stepped up enormously by war, and manufacturers who look forward beyond reconversion wonder how they can maintain present volume on the basis of peacetime domestic consumption. True, existing pent-up demand for the moment may prove sufficient, but a long-time view cannot fail to glimpse possible saturation of the domestic market while next door there appear to be almost virgin fields. Again American efficiency has been greatly increased by our war needs, particularly in the field of mass production. Higher labor costs, the bugbear of earlier efforts to export, thus no longer seem the insurmountable barrier that they have been. In a greatly increased variety of commodities, the American manufacturer is confident that in both price and quality he can meet what competition seems on the horizon. That competition too is for the moment less severe. It may take years to rebuild the German industrial plant and even then the lines along which the United Nations may permit it to be rebuilt may well eliminate Germany in the rôle of an active competitor. France has suffered severely and may take years to produce more than enough for her own needs. The same is, perhaps, true of Russia whose capacity of absorption for its own technical products seems about infinite. Japan will be out of the world market for many a year, and China and India have hardly yet reached the stage when, despite their resources of manpower, they have sufficient tech-

nological development to produce the newer fabricated products that the world wants.

Only England remains, and the average American manufacturer, confident in his own capacities, feels that the world should be able to absorb the exportable surplus of both England and the United States, and that, if strenuous competition ensues, because of his technical advances and greater accessibility of raw materials he can outsell his English competitor in many fields.

A third factor in the desire to export is the common belief that, with inflationary controls still likely to continue at home and their nonexistence or disappearance abroad, some measure of relief from domestic controls can be had by taking advantage of higher prices that may be obtainable abroad.

A fourth factor is a prevailing belief or hope that the conditions governing world trade will be generally fairer and more equitable than before, particularly as contrasted with those that discriminated against American trade since 1932. Not only does American business believe that nations, including our own, will have a more enlightened policy in regard to world trade, but it believes that the extension of Lend-Lease to our potential competitors gives us a powerful weapon which can and should be used to assure the acceptance of principles of fair competition by them as well as by us.

Behind these factors in business is a growing conviction held by the American public as a whole that an increase in our exports is almost necessary if we would attain and maintain that goal of full employment after the war which will inevitably be the demand of persons of every economic creed and every faith.

No inhibitions thus exist against this demand for exports. It will realize itself if, and to the extent that, we can finance an export trade. But it must be financed; for, without the wherewithal to buy, purchasers cannot be found, whatever their desire or whatever the price or quality of our goods.

There are only a limited number of ways with which to finance the purchase of goods; for the seller, in order to be induced to part with goods, needs in return to have something of equivalent value given to him. That can be cash, credit or other goods. But cash to any seller is valuable only if he can turn that cash into commodities he wants or into the power to buy such commodities. To the American exporter this means dollars, or currency or credits that will buy goods that he in turn can sell for dollars or else consume. With America as a voluntary or involuntary creditor of the rest of the world, dollars are scarce. Moreover countries like England, which depend today upon the flow of goods under Lend-Lease to

maintain their civilian economy, need to maintain vast reserves of dollars in order to be able to tide over a period—certain to come sometime—when that flow will cease. It is this potential emergency that leads these countries, like England, to continue their severe exchange controls, hoarding dollars as against that time and as against the time when the disappearance of wartime scarcities of shipping and supply will require them to use some portion of these dollars to thaw out the huge sterling credits that have been amassed against them.

Credit thus pushes itself forward as a second method. That some credits will have to be extended is certain. To a limited degree there will be subsidies sometimes disguised in the form of credits. This, for example, will be true of our contribution to UNRRA, of relief extended directly through military sources to inhabitants of occupied and liberated countries; and it is also the essence of such Lend-Lease for civilian purposes as we have extended or are extending to countries only theoretically at war with the Axis. There is strong pressure, however, to extend these subsidy-credits in the form of encouraging loans without any real regard to the issue of their repayment. Some virtue inheres in that idea, for such subsidy-credits can be justified as readily to secure full employment as similar expenditures in the domestic field, though they have the disadvantage of causing considerable international irritation when the anticipated but rarely articulated repudiation takes place.

True credits, however, anticipate repayment and as such represent deferred imports. So that whether we look at the problem of financing exports through cash or through credits we are driven inevitably to a consideration of the receipt of imports. If we would sell, we must buy.

A footnote can be conveniently added on the extent to which the financing of our export trade can be done through invisible imports, primarily tourist travel. Assuming full employment, the volume of travel by American tourists is likely to increase substantially, but my own judgment leads me to look with none too starry eyes on the roseate hopes held by others in this field. Even if we tripled the tourist trade after this war, the total volume of dollars spent would not be too large an item in the budget demanded to finance exports that would equal some fifteen per cent of our present production. Then, too, it must be remembered that the invisible exports of this country have a tendency to rise, particularly if the American moving-picture industry maintains its existing superiority in foreign countries.

It is our policy with reference to imports that will make or break our position in world trade. Not until after the first World War, when we became a creditor nation, did our favorable balance of payments begin to concern us and even then for many years the relationship of our tariffs

to our position in world trade escaped us. Even today the phenomenon of the manufacturer clamoring for government aid in the development of an export market and at the same time supporting a high tariff policy in some other field is only too common. The two positions can be reconciled by the provision of a high tax rate that will provide the means to finance exports, but to suggest this is to propose a concealed WPA.

The issue posed by the desire to export and high tariffs seems to me to be a triangular issue, for what position people should take on such an issue will be related fundamentally to the extent of our domestic employment. Unlike England the United States is not in the position of being required to export to live. Imports—at least increased imports—to us will have to be justified by the fact that they produce no serious unemployment but rather create employment by being the means to finance an expanded export trade. This situation can be true only if full employment characterizes our coming economy. If it does, the unemployment resultant upon the lowering of tariffs is easily absorbed elsewhere, and the level of living rises as certain commodities become cheaper and a greater variety of luxuries, otherwise unavailable to the lower income brackets, enters our markets. But without full employment the thesis ceases to stand. Under such circumstances to send our goods abroad when they might best stay at home, and create unemployment in addition, is a policy that will seem of doubtful value.

The tariff as an issue has substantially been absent from the political scene since 1928 but its relationship to internationalism and to the goal of full employment will throw it once more into the foreground. Unfortunately traditional attitudes deriving from thinking that antedates our creditor relationship to the world are only too likely to prevail, and political internationalism and economic isolationism will strive to live side by side. Basic to the restoration of world trade is the position of the United States; for not only does its significance as a source of supply rest upon its capacity to be a market for foreign production, but also its elimination as a consumer of foreign goods means the stifling of foreign production at a time when it must in our interest as well as that of the world be put on its feet.

Assuming, however, that so far as our economy is concerned we succeed in meeting the issues surrounding the financing of foreign trade, the restoration of world trade faces other obstacles. Among these is, of course, the continuation of practices that stifled trade in the years before the war, chief among which are exchange controls. The world has rarely seen these controls so all-embracing as they have become during this war. Their impact upon American life and American trade has moreover been concealed; for scarcities of supply and shipping have led us to wartime schemes of export control that have operated to minimize the fact that exchange

controls lurked in the background to govern patterns of trade that were being cut to fit their needs because of other considerations.

I believe I can make this point clear by reference to my own experience. For the past year or so I have represented the United States in its participation in the Middle East Supply Center, an Anglo-American agency that controlled substantially all imports for civilian use into the Middle East. It was organized with the aim of conserving shipping to that area and at the same time seeking to assure it those supplies essential to the maintenance of decent minimum civilian economies in that area. Jointly with the British we supervised the civilian requirements of this area and kept imports through our control of import licenses within these requirements. The larger consumers within that area were countries like Egypt, Palestine and Iraq that were members of the sterling area.

An approval by the Middle East Supply Center of an import license was automatically followed by the provision of the necessary exchange by London-controlled exchange authorities so that at the beginning no real issues of exchange control were raised. This was true since the trickle of goods was kept at a minimum because of shipping considerations and because of the fact that goods from the United States were licensed only when supply conditions in the United States or essential needs of the territory made their export desirable. Supply and shipping considerations, where our interest and that of Great Britain were alike, thus formed a pattern of trade that was identical with the limitations on imports implicit in the exchange controls of the sterling area.

But as the war moved along, the tightness of supply and shipping changed, and as these considerations changed I pushed forward two theses. The first was that we could no longer on wartime considerations justify limiting imports to the strict limitations which governed them before. The second was that the United States, so far as its own representatives were concerned, must insist that if the United States could supply, no restriction upon its ability to supply should be imposed by an Anglo-American agency. This was the doctrine of importers' free choice, namely, that importers should be free to choose between supplying areas on such grounds as they might think relevant.

Taking this position immediately threw the operation of our Anglo-American machinery out of line with the ends sought by London in its handling of exchange control, and smoked out an issue that had lain dormant because before we were as anxious to conserve our supplies as the British Empire was to conserve its dollars.

Another factor that has obscured the incidence of that problem is the use of Lend-Lease to provide supplies for civilian use. The free use of this device in the early years of the war, particularly in countries like India

and Palestine that had large dollar earnings, enabled the export of commodities to these areas without dollar payments. But a contraction of Lend-Lease and the effort to substitute normal commercial trade for Lend-Lease shipments immediately raised issues of the availability of exchange to finance these transactions. Increasing the flow of American goods into these areas not only absorbed dollars but, if it was done at the present or future expense of imports from the sterling area, threatened to make more difficult London's problem of liquidating its sterling balances.

For the American exporter or the American manufacturer simply to rail at this situation provides no remedy. Great Britain still has a need to marshal the dollars of her Empire to meet the needs of this Empire and still has before her the huge sterling debits. Her theme song of export or die not only has meaning in terms of the survival of little England but has an equally forceful significance in the very survival of Empire.

The projected solution for this and other similar situations is of course the Bretton Woods proposals, particularly the Monetary Fund. Credits of some kind are essential, just as in any corporate reorganization. But in political life the extension of credits on a large scale must follow lines not always similar to the normal banking transaction. The lender cannot, save with regard to backward countries, insist upon receivership as a condition of credit. He can insist, however, upon the abrogation of practices that threaten not only the security of the loan but the general situation that makes possible the eventual liquidation of the debt. These safeguards inhere in the Bretton Woods proposals to a far greater degree than they could attach themselves to a simple bilateral transaction, for it becomes a responsibility owed to the world as a whole not to repeat the unfair trade and monetary practices of an earlier era that so successfully dried up the channels of world trade.

The Fund, of course, only purports to set the stage for recovery and to guarantee the elimination of practices inimical to recovery. Actual recovery still depends upon the evolution of ideas of trade along the lines suggested before. One viewpoint of world trade, however, still strongly prevalent, if permitted to continue, will work heavily against recovery. This is the viewpoint that might be characterized as that of mercantilism. It commonly attends the conception of empire though it can be found elsewhere and is even prevalent in the domestic field. It builds upon the thesis of exploitation, manifests itself in the effort to keep areas from being industrialized and to retain for other areas monopolies of fabrication.

Patterns of this character not infrequently emerge by governmental and private action. In the Middle East it seemed to me not uncommon to see import licensing and exchange control operate to insist upon the importation of the fabricated products and to resist efforts to import the fab-

ricating processes themselves. This seems to me to have been a general tendency of empire in the past and frequently the only justification for maintaining political control over units of empire. It has taken even the United States a long time to learn that a prosperous South increases the prosperity of the North, and it will take the world longer to learn that the increased industrialization of backward and overpopulated agricultural areas will redound to the prosperity of areas that may unwisely strive to maintain their monopoly over fabrication. If lower grade textiles or steel can be made cheaper in Egypt and India, it is folly not to encourage their production.

A danger that inheres in the desire to reach full recovery is a possible effort to try to plan too concretely world production as a whole. Two developments in the world today seem to threaten along these lines. The first is the support of the government controlled cartel. Something along the line of international control or guidance of the development of what should be regarded as international resources, such as oil, is obviously necessary, for otherwise cartelization without governmental supervision is only too likely to emerge with all its attendant evils. But the reins of bureaucratic control must be loose and must be centered elsewhere than in the industry itself, for otherwise the very evils that we try to guard against will remain sanctified by the support of government.

The second development stems from controlled wartime production as manifested in the mechanism of the combined boards. Their contribution to the cause of war may lead us to the attempt to preserve them for the causes of peace. But to do so seems to me to continue beyond the necessities of the war situation the overweening control of world economy that today centers in the United States and Great Britain and that tomorrow may add Russia, and that as such will perpetuate the theory of great Power control in the field of economic development. To do so also ignores the enormous differences between a war economy and a peace economy; for, in war, production at any cost is the controlling consideration. As contrasted with mechanisms of this character the desirable pattern is set in such institutions as the Food and Agriculture Organization projected at Hot Springs or the Economic Council contemplated by the Dumbarton Oaks proposals. The differences between these proposals and the suggestion of continuing in modified form the combined boards are enormous, essentially the differences between monopoly and the democratic trade associations.

These then are the broad lines upon which I see not merely the restoration of world trade but its promotion to levels far in excess of any that the world has yet seen. One matter that tends to be neglected as we look out into the world is our own organization at home to promote and adapt

those policies in which we may believe. In the years that have just passed, we have witnessed extraordinarily complicated and divided authorities operating in the field of foreign trade. It is patent that we were ill-prepared for an expansion of our concern in this field. Agency after agency was created, reorganized, abolished and reshuffled. This situation still persists. It prevents the implementation of policy as well as its precipitation. The recent action of the Congress in divorcing the loaning agencies from the Department of Commerce has hardly helped the picture. In this field of foreign commerce, if anywhere, some expert in administrative management and planning is wanted, to put together these diverse activities under some common roof. The jurisdictional overlapping between departments such as State, Commerce and Treasury and agencies such as the Foreign Economic Administration, the Export-Import Bank, and the War Production Board is at times frightening in its capacity to bring matters to a standstill. Action rather than default must characterize the United States, for in the field of the world economy, default by the United States means the return of a world that we had thought was hopefully buried.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN WADSWORTH: Thank you, very much, Mr. Landis!

Now I am going to introduce our last speaker, the Honorable John W. Hanes, who served also as a member of the Securities and Exchange Commission in 1938, as Assistant Secretary and Under-Secretary of the Treasury, and as an investment banker active in many fields.

Mr. Hanes will speak to us on "The American Merchant Marine: A Bridge to the Future". I am very happy to introduce the Honorable John W. Hanes!

## THE AMERICAN MERCHANT MARINE: A BRIDGE TO THE FUTURE

JOHN W. HANES

Chairman of the Executive Committee, United States Lines Company

**A**S the end of the European phase of World War II approaches, it is only natural that the United States should begin to evaluate its place in a world at peace. Right now we are developing an ambitious program for post-war foreign trade; a very necessary adjunct is a merchant marine. There is first the task of rebuilding a war-torn Europe. As factories rise and millions of men are demobilized and returned to peacetime pursuits, we will resurrect a nonexistent international trade. A high percentage of post-war trade will be with America. This can be carried in American merchant ships. We are also counting upon the revival of foreign commerce—counting perhaps too heavily—to provide possibly ten per cent of the new jobs in our post-war program of full employment.

We cannot devise these blueprints for the future quite as simply as that. We cannot act unilaterally either in the rebuilding of our merchant marine, or in the disposal of that surplus of ship tonnage which will be ours when the war ends. I need not remind you that, as a result of the war and the existing maldistribution of ocean shipping, the United States is today in possession of a total tonnage in excess of *all* the ships owned by the Allied Powers prior to the outbreak of World War II.

These twin problems of rebuilding foreign trade, on the one hand, and disposing of surplus ships, on the other, do not stand by themselves. They in turn are small segments of still larger problems. For example, the dimensions of the shipping "surplus" will be determined by our national defense needs after the war." The "surplus" will also be conditioned, to some extent, by the overseas military obligations which America assumes in policing a vanquished Germany and Japan. It will also be determined by our part in helping to build a new world order.

America is not quite as dependent, as are many European nations, upon foreign trade. Yet, it is the uncertainty over what America proposes to do in this area of international shipping that creates such great indecision abroad as to post-war planning. Take, for example, the position of Great Britain. Prior to 1914, the British merchant fleet totaled more than 21 million tons, as against an American merchant marine of slightly over 5.3 million tons. When the present war ends, that situation will be reversed;

British merchant tonnage will be reduced to between 10 and 12 million tons, while our war-built vessels will total between 35 and 40 million tons!

In planning for a great post-war trade, we expect the European nations—neutral and Allies alike—to more than double pre-war purchases of American goods. That expectation is based upon their *needs* rather than their ability to pay for what they buy. We must not overlook the fact that a part of the exchange required to pay for their imports from us can come only from a restoration of their former position as maritime Powers.

The position of Norway graphically presents the problem. In normal pre-war years, Norway's merchant fleet earned most of the foreign exchange which in turn paid for approximately one third of Norway's total imports. Similarly, foreign shipping revenues accruing to Great Britain and the Netherlands provided eight and ten per cent, respectively, of the foreign exchange requirements of these two nations. Therefore, a broad perspective from our standpoint is necessary in planning for the future.

We must recognize another important limitation in building America's future on the seas. If we assume leadership in planning for the post-war world, we ought to conform to the post-war international agreements which have been negotiated. We are parties to the declarations of the Atlantic Charter; to decisions as yet undisclosed reached at Teheran and Yalta; to the undertakings regarding the future of international fiscal policy and future world security reached at Bretton Woods and Dumbarton Oaks. We have ourselves initiated understandings with regard to post-war aviation at the Chicago Conference and with regard to petroleum as set forth in the British-American Petroleum Agreements now pending in the Senate.

What we do in the area of world shipping is also governed by the terms of the United Nations' pooling agreement, now in effect, which will continue in force until six months after the war. Staggering in their complexity, are the problems of unscrambling ownership titles and reallocating literally thousands of vessels now operating under one universal command. In projecting its own plans for a post-war merchant marine, it goes without saying that America must, and will, observe the basic principle on which it has been so insistent—both for the war and the post-war period. That principle is *coöperation* within the United Nations structure.

We have voluntarily forsworn the right to use, without reservation, our own tremendous economic power solely to serve our own interests. We are now committed to go forward on that same program of international coöperation to which the war has given such tremendous impetus.

Contrast, for example, the attitude of the Allies toward each other during the first and second World Wars. Back in 1914-1918, Great Britain,

France and the United States jealously watched one another. They conceded to General Foch and the Supreme Command only the minimum requirements established for each particular offensive. Today the Combined Staffs sitting at Washington and London mobilize and dispose of the military and economic resources of *all* the Allied Nations. Without this unprecedented kind of coöperation and collaboration, a quick victory would not have been possible.

Whether these patterns are to be discarded in the future will be primarily America's responsibility to decide. We must choose between a new world economic order, which goes beyond a mere legal alliance between nations, or a return to bitter, competitive nationalism, which inevitably will lead to still another world war.

Indeed, the whole problem of world recovery, as has been demonstrated by experience in France and the other liberated nations of Europe, is tied in to the decisions which must be made soon with regard to international shipping. For these reasons I should like to second the suggestion made by Basil Harris, President of the United States Lines Company, some months ago—that a new international maritime conference be called to work out the many unsolved factors in the problem. This should be a conference not merely of the governments concerned, but of the operating agencies—private companies and others—directly related to world transportation.

The problem will drift from bad to worse unless our allies—notably Great Britain, the Netherlands, Norway, France and Greece—know where they stand vis-à-vis the United States. They can make no move until they know whether or not, in rebuilding their shattered economies, they have any call upon American shipping resources. That decision in itself may determine whether our dream of enduring world peace may prove to be possible of realization, or remain, like so many pious resolves of the past, wholly ephemeral and impractical.

Admiral Land and other governmental leaders have already outlined the factors essential to the establishment of a sound post-war maritime policy for the United States. That policy was really initiated with the passage in 1936 of the Merchant Marine Act. The new Maritime Commission, in its first survey of the problem, made this candid admission: "It must be admitted that despite millions of dollars lavished on the American Merchant Marine during the past fifteen years (*including the payment of a quarter of a billion in mail contracts and other subsidies*), the effect so far as the establishment of a sound merchant marine policy is concerned has been a failure."

I have not time—nor is it material here—to review all the mistakes that were made between 1921 and 1936, a period which saw America's mari-

time tonnage engaged in foreign trade steadily decline from 11 million to 3 million tons. As a result of these mistakes and the political handling of problems that are primarily economic in character, the American merchant flag virtually disappeared from the high seas. Between 1900 and 1914 only 9 per cent of American overseas trade was carried in ships flying the American flag. The first World War brought a temporary boom, and by 1922 the percentage of trade moving in American ships had risen to about 50 per cent. From that level it steadily declined until, in 1939, it was again less than 15 per cent!

The post-war shipping policy which Admiral Land has designed to regain that position lost through these decades of inertia is briefly summarized as follows: (1) United States foreign trade merchant marine of from 10 to 13.5 million tons; (2) laid-up "reserve" of 5 million tons (largely of war-built Liberty ships); (3) transportation of 50 per cent of our foreign trade in American vessels; (4) expansion of trade through indirect lines and the development of tramp shipping; (5) continued subsidies; (6) elimination of Axis shipping.

This program, broad as it is, does not deal adequately with the situation. If the American merchant marine is to keep the seas without costing the taxpayers too great a sum in subsidy, several collateral steps are also necessary. Our operating costs are at least 50 per cent higher on the average than are those of our foreign competitors; this means we must greatly increase our efficiency both at sea and ashore. Here we are confronted with basic weaknesses which endanger our whole future position.

I have great sympathy with the lot of men who "go down to the sea in ships". Every one of them, as well as every operator, has a stake in eliminating working restrictions which impair America's ability to compete with other nations. Since, in the long run, the maritime employee's job is at stake, it seems to me it would be a wise policy for the leaders of the maritime unions to join in the elimination of the "make-work" practices, both ashore and at sea, which have so seriously handicapped the American operator. When peace returns and European ports rebuild and modernize their facilities, American operators will have a tough enough time with our *foreign* competitors.

The second basic weakness to be overcome, if we are to hold our own in competition with other nations, lies in the absence of any constructive program for continued shipbuilding after the war. As was demonstrated in the 1918-1936 period, no American merchant marine can build solidly toward the future on the basis of constantly aging, inefficient war-constructed vessels. Here again we must be on our toes, building special type ships for special type services, meeting our foreign competitors on their

own ground. This means passenger vessels, combination cargo and passenger vessels, refrigerator ships, tankers, and so on.

Perhaps at this point something should be said regarding post-war competition between established steamship lines and transoceanic planes. Here too, we must be very sure that American policy is sound. Opinion is divided over the course America should pursue. Some believe in an old-fashioned competitive struggle between all comers. Others fear the consequences of such a policy, pointing to the highly complex technological factors involved in air transportation.

Many who have studied the problem believe that the best solution is provided by a single agency operating under close government supervision, in which other transportation agencies—that is, domestic air lines, railroads, steamship lines—should be given the opportunity to acquire a financial interest. Both the railroads and the steamship companies would book for the air carrier, thus preserving their own experienced relationships with the traveling public.

Operating under close government scrutiny, and being at the same time broadly representative of all interests in the transportation field, the potentialities for rapid growth for a single overseas operating unit are far greater than if the same volume of traffic were to be divided among a number of smaller, competing air lines, with none among them sufficiently strong to weather a long period of unprofitable operations. Nor could such a quasi-public enterprise be charged with occupying a monopolistic position, so long as its operations will be paralleled by foreign air carriers.

As a matter of fact, the British, who refused to accept some of the conclusions reached at the Chicago Aviation Conference, now have declared in favor of a single integrated system in which the government, the steamship companies, and the railroads will have an interest. This system will be subject to economic and policy control by the British government. A recently issued White Paper explains the position of the British government on this controversial point. Let me quote one sentence from this important document: "It is therefore a necessary part of the government's plan that the undertakings (*operators*) which will be granted the right to run air services both within the United Kingdom and *between the United Kingdom and other countries* shall possess such right on their allotted routes to the exclusion of other United Kingdom air transport operators."

What this really means, when one gets behind the diplomatic language, is that the British accept the principle set up in the McCarran bill now pending in Congress. All future development of air transportation within the British Empire is to be entrusted to the British Overseas Airways Corporation and its various affiliates. This corporation is not publicly owned—as the proposed American air flag line would be—but is owned 100 per

cent by the British government. No competition is to be permitted, but the expansion of this new transportation agency must take place, so the British declare, "within an ordered plan."

With the British air-sea program thus clearly integrated, sound American policy will seek to maintain proper competition in the public interest, but to avoid causes of future friction or the development of any dangerous rivalry between Great Britain and ourselves. Such a course is plain common sense, fully recognized by the leaders of both countries, I hope.

The British stress the necessity of maintaining maritime communications as a part of any program of national defense and of strengthening the bonds of Empire. The London *Economist*, often a spokesman for official policy, declares flatly, "It seems unlikely that the British government or the British public will be deterred from their purpose which rests not so much on economic considerations as on the essential elements of national safety."

Both the British and American programs, you will note, rest on the assumption that shipping is strategically vital to the national defense. Quite without respect to the economic factors involved, both nations embark on programs which envision that their merchant fleets are to carry one half of the foreign trade of each country. This fifty per cent clause is a political phrase that always sounds well, and yet can be a bad mischief-maker and source of friction between nations. Indeed, it can be as provocative to national pride as the naval limitation "quotas" proved to be between the United States, Great Britain and Japan.

Admiral Land sets, as a goal for America's future maritime fleet, a total of 13.5 million gross tons. Here again, it seems to me that we are setting up, as a matter of national policy, phantom totals and theoretical divisions of a not yet existent volume of trade, which are both unrealistic and in themselves provocative of serious international misunderstanding. If such a tonnage is to be used profitably, it will require a great expansion of world commerce. It would mean that American foreign trade would have to be increased by more than 20 per cent over that of the record year 1929. It would certainly seem clear, as I have pointed out before, that we cannot raise American exports to any such high levels simply on the basis of a unilateral program of our own. If foreign nations gain the idea that we are attempting to reach out and appropriate to ourselves a large part of the foreign shipping revenue which is so vital to their own rehabilitation, then we shall be seriously endangering the program of future world relations, for which we so fervently hope the San Francisco Conference will provide a sound cornerstone.

In discussing the second basic factor of our problem—that of ship disposal—we must be no less candid in emphasizing that the American ship

operator is entitled to a square deal from the government in Washington. He has *not* always had this in the past.

The relationships between American ship operators and officials entrusted with the administration of governmental policy have not been, by and large, as satisfactory as they might have been, over the past two decades. The ship operator has been the victim of vacillating political policies; that he has survived at all under such conditions is a tribute to his resourcefulness and ingenuity and is nothing short of a miracle.

The decline of American shipping has been primarily due to the fact that the operator, on the one hand, has been little more than an agent of a federal authority which supervises every detail of operations, while, on the other hand, he has been completely at the mercy of the maritime unions who exploited their political influence on the Pacific and Atlantic coasts and sought, at the same time, to exercise some of the prerogatives of management. Unless the American merchant marine is to pass completely under full government operation, and thus be removed from the realm of private enterprise, the *spirit* of regulation over the maritime industry must be completely changed from what it was during the nineteen twenties and thirties. Until the passage of the Maritime Act of 1936, there were few incentives to warrant the taking of such risks by capital.

Only from this background of *incentive* and *risk* can we take up the question of ship disposal after the war. The debate now taking place, both in public and private, centers on three major points: (a) the *prices* which the government should ask for different categories of ships; (b) the *terms* on which ships should be sold (particularly to foreign operators); (c) *restrictions* on operations to be incorporated as part of the sales contracts with regard to wage standards, conditions of employment, sizes of crews, etc.

It is particularly important, in disposing of our "surplus" ships, that we avoid the mistakes made after the last war by the Shipping Board. The overgrasping attitude on the part of the government, as well as errors in policy, was primarily responsible for the distressed state to which, in the nineteen thirties, the American shipping industry was desperately reduced. For example, some American operators were forced to buy vessels on the basis of approximately \$220 a ton. A few years later as prices kept dropping, other operators could acquire the same type of vessels for as low as \$5.00 a ton! Such a situation encouraged many "shoestring" operators—short on cash, but long on political influence—to enter a field not yet developed, where profits seldom got beyond the visionary stage. Is it any wonder that the more responsible American shipping companies were unwilling to embark upon replacement or new building programs? Is it any wonder an almost complete stoppage of building took place?

Some of these same mistakes of the nineteen thirties now seem likely to be repeated. Here I refer specifically to a bill for ship disposal recently introduced by Representative Bland (H. R. 1425). This measure seeks to lay down, before the war is ended, a *fixed formula* on which the government is to dispose of merchant tonnage when hostilities are over. Again, prices for the different categories of ships are to be specifically fixed, with sales to foreign interests authorized to replace merchant vessels that have been sunk during the war. For the would-be American purchasers, on the other hand, certain restrictions governing operations will be established, while at the same time no recognition seems to be given to the economic or competitive circumstances which will determine success or failure.

This type of approach, I submit, is basically wrong. A ship has no economic value on a dollar-per-ton basis, or indeed on any other, except in relation to the trade route on which it is to function. It is nothing but a piece of machinery to haul cargo. Without the cargo it is valueless. The first consideration, therefore, must be the *trade route* on which the ship is to function; the second, the experience and skill of the operator who is using the ship as a tool in building American foreign trade. Any other consideration is completely without validity.

Unless we know *what* we are doing and *how* to do it, we are likely to fail, as we have failed before. An excess of competition between American ship operators who have bought vessels simply on a "bargain" basis, and seek a "quick" profit from the exploitation of some particular shipping route, not only will intensify economic chaos but, again, will seriously impair the program of world rehabilitation which is now so vital.

From this all too brief summary of the problems confronting us with regard to post-war shipping, one important conclusion would seem to emerge. If America intends to remain a maritime nation, we need a completely new orientation in attitude to meet the responsibilities that necessarily go with this new position. We have been given a great opportunity. What we do with that opportunity depends, in large measure, upon how realistically we approach and deal with the present situation.

The elimination of Germany and Japan as world Powers creates a vacuum both in the Atlantic and in the Pacific. Just as the last century had its primary emphasis in the Atlantic, so the century now beginning may well belong to the western ocean. The Orient is awakening from a long sleep and senses its new power; it looks to America for leadership and help in developing its limitless resources.

Once before, at the beginning of the present century, America was confronted with a similar choice. We turned our backs upon the building of an American empire overseas. We refused to follow up the conquest of Spanish possessions with alluring programs of imperialistic expansion.

The fruit of that policy is to be seen today in the rededication of freedom now taking place in the Philippines, in the efforts of China to modernize herself through the use of American patterns, in the stirrings of latent ambitions everywhere visible throughout the Far East. Both in the future, as well as now, America must continue to be the "arsenal of democracy"—which, once more, seems destined to become the hope of mankind.

To the liberated peoples of Europe, as to the slowly awakening peoples of Asia, the bridge to that new future is truly a bridge of ships—the American merchant marine.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN WADSWORTH: We have heard an interesting series of papers. The impression I get is that a great responsibility has fallen upon the United States because of the extraordinary power she now possesses. It is going to be a miracle if we solve the problems, just a few of the problems, which have been laid before us tonight; but when we look back to Pearl Harbor and think of the miracle we have accomplished since that day, I feel we can only leave this meeting with the hope that, knowing the problems, having the American energy that we have shown so often in the past, we will find a way to set up the machinery to solve these problems for the good of the United States and of the world.

I wish we could have questions, but the hour is late. Therefore I will thank these gentlemen very much, on your behalf, for what they have said to us, and declare the meeting adjourned.

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## In Memoriam

In the tragic death of Leon Fraser on April 8, 1945, the Academy has lost a loyal and helpful trustee, and the community an extraordinarily useful citizen. He had given proof of his valuable services in many important fields, both national and international.

Born in 1889, Fraser was a graduate of Columbia College and received his doctorate at Columbia University in 1915, where he became a lecturer on political science. After serving creditably with the American Expeditionary Force in France during the war, he was retained in various capacities by American concerns that had interests in Paris. At the headquarters there of the Reparations Commission, Mr. Fraser acted as the representative of the Agent General for Reparations, and gained an immense insight into the condition and practices of all the European nations. In 1929, he became adviser on the American Committee for the preparation of the Young Plan in revision of reparations for Germany; later he served as Vice President and then Chairman and President of the Bank for International Settlements which was established as a result of the deliberations of the Young Committee.

Returning to America in 1935, Mr. Fraser became at once associated with the First National Bank of New York of which he had been President from 1937 to the time of his death. He was a valued director of several leading railway and industrial corporations.

This brief memorial can give no real idea of Mr. Fraser's outstanding accomplishments in his many fields of international activity. Through his diligent study of current economic questions, he proved himself perhaps the most competent all-round adviser on European conditions that America was able to furnish during the reconstruction period between the two World Wars. Mr. Fraser was a genial and delightful person with a charming sense of humor, a ready and forceful speaker, responding promptly and effectively on behalf of a multitude of worthy causes. Kindliness and sympathy came spontaneously from a warm heart, and it was these endearing qualities that made his untimely end such a grievous loss to a wide circle of friends.